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**Small firms in a developing economy : a social and economic case study of the OSTIM  
Industrial Estate at Ankara, Turkey.**

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**SMALL FIRMS IN A DEVELOPING ECONOMY: A Social and  
Economic Case Study of the OSTIM Industrial Estate at  
Ankara, Turkey**

**by**

**NADIR SUGUR**

**A Dissertation Submitted to the University of Bristol for a  
Degree of PhD**

**UNIVERSITY OF BRISTOL**

**FEBRUARY, 1995**

## **ABSTRACT**

Turkey has undergone a major migration from rural to urban areas. The Turkish state has been long committed to a modernisation project. The thesis locates the development of industrial estates in this context. It draws particularly on a study of 100 small employers and 55 workers in OSTIM industrial estate at Ankara, conducted in 1992 and 1993. It analyses what sort of livelihood these provide for those working at the estate and specifically explores the reasons which make people enter into small scale economic activities. It is found that a large number of small employers and workers have failed to gain access to more secure and stable employment in the formal sector. They have been pushed into informal sector activities unwillingly. Nevertheless, they are seen to enjoy better work arrangements and a better level of income at the estate than they would in most informal sector activities.

The stratification of small firms at the industrial estate is examined and the position is investigated of small firms in the chain of market relations, with respect to subcontracting, raw materials, competition and credit. The relationship between the social and economic origins of small employers and the growth potential of small firms is examined. It is found that growth is significantly related to small employers' migrant status, level of education and technical qualifications.

This thesis assesses the flexible specialisation model of industrial organisation in the light of OSTIM's small firms in Turkey. It particularly examines the possibility of co-operation and collaboration between these small firms.

This study concludes that despite many difficulties that small firms face in the market, they play an important role in providing employment opportunities to those who lack the level of education, skills and technical qualification which can pave the way to more secure and stable occupations in the formal sector.

## **ACKNOWLEDGEMENTS**

In the second half of the 1980s, I found myself more and more becoming interested in small firms. This was partly because of the extent of small scale economic activities in the Turkish economy and my long interest in the role and position of small scale economic activities developed during my study in the Sociology Department at Ankara University. My concern was further stimulated by my experience of working in England. Thus, I have been able to perceive both theoretical and practical sides of small firms in the economy. This research began in October 1990 and has been completed with one full-time year of study and three further part-time years.

During the course of my study, as a self-funding student, I encountered great financial difficulties. However, thanks to my supervisor Theo Nichols, I was fortunate enough to get a Departmental Bursary which partly financed my academic fees since my personal savings would not have been adequate to enable me to complete this study. In my final year, I also benefited greatly from a grant provided by The Leche Trust.

There are many people without whose help this thesis would not have been completed. I owe a great debt of thanks to the small employers and workers from whom I gained valuable insights into the world of small firms. They generously gave their time to discuss even minor points. They invited me to the coffee houses and pubs where they usually met after work and, especially by courtesy of Ali Agabey and Kemal Usta, I immediately became a familiar face among them. I would like to thank them all.

I owe special thanks to Shanta Arulanantham for her help in correcting my English. I would like to thank all my Turkish friends for their support, encouragement and good humour. I am greatly indebted to my supervisors, Theo Nichols and Rohit Barot, for their criticism, guidance and advice. I am most grateful to my wife Serap Boz, who has given me far more patience, tolerance, love and support than I could rightly have asked for.



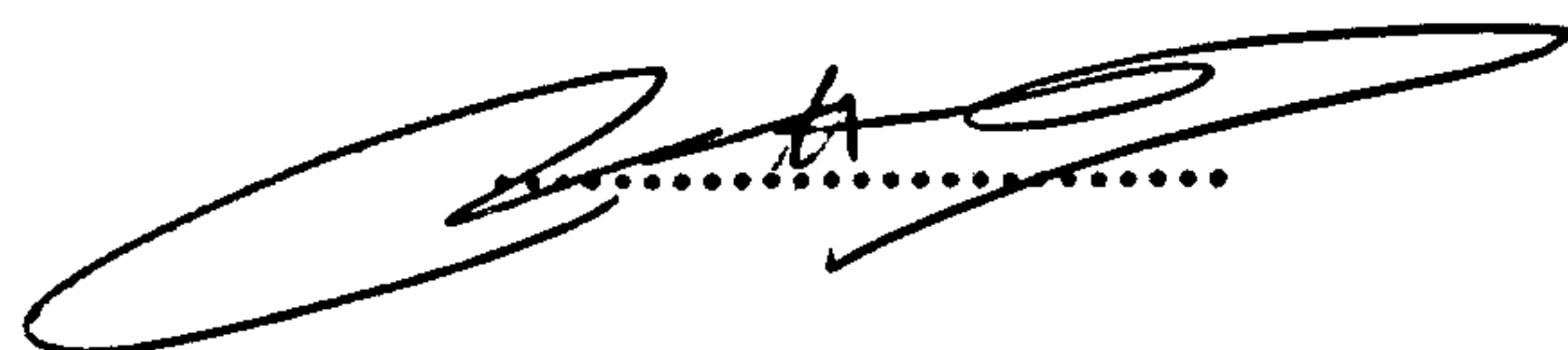
Finally, my thanks go to my mother Hatun Sugur, without her inspiration, moral support and sacrifice, I could not possibly have finished my studies over the years.

**ANNE'ME**

## MEMORANDUM

The study presented here is based on entirely on my own work, except where other authors have been referred to and acknowledged in the text. It has not been previously submitted for a degree of this or any other university.

**Nadir Sugur**

A handwritten signature in black ink, featuring a large, stylized 'N' and 'S' with a dotted line running through the middle.

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# **INTRODUCTION**

This thesis is a study of small firms in Turkey. The role of small-scale informal economic activities in creating employment opportunities for a large proportion of the urban labour force in developing economies has been one of the issues discussed in the development literature particularly since the ILO proposal introduced in 1973. It has been generally assumed that the encouragement of small scale economic activities in developing economies will lead to the generation of jobs, wealth, high income opportunities for the poor and thus, the problem of poverty and high unemployment will be overcome. It has also been expected that the development of these activities will make a valuable contribution to the economy in terms of input, output and value-added.

However studies which were carried out in the developing world during 1970s and 1980s, generally failed to differentiate the distinctive characteristics of informal economic activities. Thus, a study of such economic activities should start with a definition of the term and an explanation of what distinctive forms it can take in relation to the various factors of the economy.

## **a) Definition of the concept**

For the purpose of this study, the term 'small firm' is used to refer to the small scale establishment involved in production of goods and services which employs 1-10 workers. This study specifically concentrates on small firms in metal manufacturing which are located in a fixed location for conducting business and manufacturing a commodity. Thus, samples were specially based on an industrial district, where mainly small metal manufacturing firms operate. Formally speaking it is horse power [HP] not number employed which defines the maximum size of small firms permitted to operate on the estate. Small employers with over 100hp capacity are required to relocate another industrial estate for medium size of firms at Sincan, on the other side of Ankara.

## **b) Objectives and scope of the study**

One of the basic aims of the study is to discuss the role of the small firms in economic development in general and small employers' survival struggles in running their own business in particular. I focus on the position of small firms in connection with their market relations, economic development, employment creation capacity, employment relations and the sorts of problems that they face at OSTIM<sup>1</sup>. Likewise, this study also assesses the extent to which small firms can answer the social and economic problems of urban areas. In addition, it considers what roles small firms can play for the poor who have failed to enter relatively secure and stable occupations in the formal sector, particularly in the public sector. This entails the discussion of issues such as rural-urban migration, urban unemployment, the labour market and poor housing.

The thesis pays special attention to the relevance of recent debates on small firms in developing and developed countries with special reference to small firms covered in this survey. It is examined whether recent debates can significantly contribute to the understanding of the small firm sector of the economy, particularly in the Turkish case.

More specifically, this study has the following objectives;

- a) to reach a large number of small firms which are engaged in metal manufacturing and produce a commodity,
- b) to examine the socio-economic origins of small employers with respect to birth place, fathers' occupations, the level of education and migrant status.
- c) to understand the factors which push individuals into the world of small scale economic activities, particularly to industrial estates,

---

<sup>1</sup> OSTIM is an abbreviation of Middle East Industrial and Commercial Centre [Ortadogu Sanayi ve Ticaret Merkezi]. It is located in Ankara and the biggest privately established industrial estate in Turkey with around 3.000 small workshops and factories and average of 6-7 workers to each firm.



d) to analyse the nature of a wide range of market relations that small firms are engaged in such as access to raw materials, subcontracting and credit.

e) to assess how much the path to growth is constrained by internal and external factors such as the amount of working capital, the skill of the work force, the use of technology, the chain of market relations and profit margins.

f) to find out how relevant the recent debates on small firms in developed market economies [such as post fordist interpretations and the theory of flexible specialisation] are and to explore the case of small firms in a developing country, Turkey.

e) last but by no means least, to explore the position of workers employed in small firms in regard to condition of work, employment relations, actual pay, working hours, health and safety and unionisation.

### **c) Organisation of the study**

Chapter One examines the issues of rural-urban migration, poor housing and the impact of the urban labour market on migrants' decisions to enter industrial estates to make a living. In this context, attention is given to differences between individuals with different socio-economic backgrounds in relation to choice, opportunity and entry into small scale economic activities. A typology of small employers is proposed in regard to their experience of survival in the urban context.

Chapter Two deals with the common problems of small firms in respect to various kinds of market relations concerning working capital, payment problems, lack of demand and competition. It specifically explores to what extent small firms' growth is constrained by certain forms of market relations in relation to subcontract work, raw materials, credit and so on. I also explore how these market relations differ in making an impact on small firms in accordance with the size of establishment and small employers' socio-economic background.

Chapter Three analyses the relevance of the recent debates about the role of small firms, both in the developing and developed countries, with special reference to the small firms covered in this survey. It especially looks at the theory of 'flexible specialisation', which claims that certain developments in capitalist economies such as a rapid change and differentiation in demand and growth of trade unionism in large production plants, increasingly undermined the system of mass production in large scale firms, and thus, favour the growth of small firms more than ever. These arguments are dealt with in more detail in regard to whether the Turkish case confirms the re-emergence of the small firm sector of the economy in relation to the use of technology, flexible production techniques, flexible work force and the design.

Chapter Four specifically concentrates on the socio-economic analysis of small firms from various perspectives. It firstly explores statistical and economic accounts in determining the weight of small firms in the Turkish economy in terms of number of establishments, number of persons employed, input, output and value-added. Secondly, it examines the growth potential of small firms in the past, the present and the future in association with the number of workers employed, shop size, investment for new machinery, and so on. Then, it considers small employers in relation to enterprise culture, the division of labour, employment relations and social class respectively.

The final chapter deliberately focuses on the most neglected part of the small firm sector of the economy, that is workers. It considers their conditions of work, unionisation, their level of skill, pay, working time and health and safety at work. It examines how workers play an important role in the survival of small firms and significantly contribute to the capital accumulation of not only the small firm itself but the larger capital outside the estate. The final chapter also aims to demonstrate to what extent industrial estates are important sources for creating a cheap but technically skilful workforce for the economy in general and for small firms in particular. Given the various difficulties that workers face at the estate, such as lack of earning opportunity, lack of unionisation, unstable work arrangement and scarcity or absence of additional



income, this chapter finally gauges the degree to which workers are capable of setting up their own business in the future.

In the conclusion, I review this study's qualitative and quantitative data and outline the role and position of small employers and workers of small firms with special reference to the case of OSTIM at Ankara.

Finally, in the appendix, I describe the investigative techniques and the research methodology employed throughout the study.

# **CHAPTER 1**

## **THE MAKING OF SMALL EMPLOYERS IN TURKEY**

### **1.1 Introduction**

In this chapter, I will examine the meaning of becoming a small employer and the sort of problems that different small employers face in the context of rural migration and the wider industrial and class structure. Unlike the predominantly economic and statistical nature of much analysis in this area (Todaro 1980, Anderson 1982 and Little *et al* 1987), I deliberately focus on first person reports, in addition to other information, from interviews conducted with small employers. I argue that specific individuals enter more or less willingly. The firms take different forms according to whether the small employers are themselves first time rural migrants or have their immediate origin in the urban area. This is in good measure because of the related fact that there tend to be differences between the levels of formal education of those from rural and urban origins. I claim that there are important differences between small employers with rural origins and small employers with urban origins in the way they set up small firms. However, in spite of these differences, all small employers share certain common social and economic problems.

### **1.2 Migration**

The role of migration, urbanisation and the impact of the urban labour market have been key issues to explain the way urban surplus labour enters into the world of small scale economic activities.

In examining the factors which influence small employers, a fairly coherent picture of the social and economic conditions of Turkey emerges. Continuous migration, unplanned forms of urbanisation and the proliferation of surplus labour in urban areas have given rise to the proliferation of informal economic activities and the development of small industry.

Like other developing countries, Turkey has experienced a kind of industrial development in which more than 60 per cent of the economically active population is employed in small scale economic activities. Moreover, the number of people working in small scale economic activities has consistently increased since the 1950s. All this has taken place within the context of heavy industrialisation in Turkey in the last three decades. It is therefore essential to examine the position and the role of small manufacturing firms in the development and industrialisation process of Turkey.

The factors which push individuals into the world of small scale economic activities are closely related to the structure of the urban labour market in Turkey. Continuous migration has occurred from rural areas to urban settlements since the 1950s. This has given rise to rapid urbanisation in Turkey. The immediate difficulties which these migrants faced in urban areas were the lack of employment opportunities available to them. This was partly because the occupations which the urban labour market created demanded the kind of educational and technical qualifications that urban migrants did not possess. In addition to this, the industrial sector was not sufficiently developed to absorb the relatively well educated skilled labour, let alone the booming less skilled and unskilled urban labour force. Therefore, before examining the structure of the urban labour market in identifying the conditions under which a number of people make their living in small scale economic activities, it is essential to have a closer look at the dramatic changes in the rural areas that have taken place since the 1950s.

As can be clearly seen in Table 1.1, Turkey was predominantly an agricultural economy until the late 1970s. Although the industrial sector in general, and the manufacturing sector in particular, have expanded significantly since the 1950s, as



judged by these sectors' shares in total employment and GNP, the agricultural sector carried more weight than the industrial sector. Despite a dramatic decrease since the 1950s, agricultural employment still accounted for around a half of the labour force in Turkey in 1991. However, the contribution of the agricultural sector to GNP dropped to under 20% in 1991 and in 1992 the latest figure is well below 17 per cent. After 1980, Turkey underwent a radical economic transformation. It was the most remarkable period which has substantially altered the structure of economy. Since then Turkey has promoted a policy that has turned Turkish industry from an inward looking one, based on the internal market, to an export oriented one. As a result, the share of industry in general, and of the manufacturing sector in particular, has increased significantly in total employment and GNP.

Since 1980, the urban population has grown to an extent that has been unprecedented in the history of modern Turkey. Currently, more and more people are making their living in urban areas. In 1990, more than 59 per cent of the population was in urban areas and in the latest figure for 1992, it is 62 per cent. It has happened not only as a result of a high rate of population increases in Turkey in general, but also as a result of the increasing high rate of migration from rural areas to major urban centres like Istanbul, Ankara and Izmir. In fact, the number of people living in rural areas has declined significantly since 1980. The historical composition of Turkey's population can be clearly seen in Table 1.1

**TABLE 1.1****The Composition of Rural and Urban Population in Turkey Between 1927 and 1990**

Years	Total	Urban population	Urban share	Rural population	Rural share
1927	13,648,273	3,305,879	24.2	10,342,391	75.8
1935	16,158,018	3,802,642	23.5	12,355,376	76.5
1940	17,820,950	4,346,249	24.4	13,474,701	75.6
1945	18,790,174	4,687,102	24.9	14,103,072	75.1
1950	20,947,188	5,244,337	25.0	15,702,851	75.0
1955	24,064,763	6,927,343	28.8	17,137,420	71.2
1960	27,754,820	8,859,731	31.9	18,895,089	68.1
1965	31,391,421	10,805,817	34.4	20,585,604	65.6
1970	35,605,176	13,691,101	38.5	21,914,075	61.5
1975	40,347,719	16,869,068	41.8	23,478,651	58.2
1980	44,736,957	19,645,007	43.9	25,091,950	56.1
1985	50,664,458	26,865,757	53.0	23,798,701	47.0
1990	56,473,035	33,326,351	59.1	23,146,684	40.9

**Source:** Statistics Yearbook of Turkey, various years, State Institute of Statistics.

Transformation in the rural areas has accelerated this process further. In particular, the fragmentation of land as a result of the system of inheritance has meant that there is insufficient land for those who depend on agriculture. Lack of birth control in the rural areas has caused an excessive population, leading to surplus labour being created in the rural areas.



Initially, the state tried to keep the population in rural areas working on their own account. Although migration to urban areas was not restricted by the state, agricultural policies of Turkey for rural development in the period between 1960 and 1980 were aimed to finance and subsidise a large section of population in the rural areas in order to control the level of poverty. In most cases, state subsidies to agriculture were used to finance basic agricultural products and credits were given to those who were working in agriculture. Support purchases were expanded and prices raised. Even the prices of the main agricultural products, such as rice, cotton, hazelnuts [which made up half of Turkish exports until the late 1970s], tobacco and wheat were determined by the state, not by the market, so that the real income in agriculture was maintained at a reasonable level for people who would otherwise have lived in poverty in the rural areas.

A new five year development plan was introduced by the state in 1962 that allowed governments to play a more important role in the economy in general and in agriculture in particular. Especially in agriculture, under the *support purchase programme*, the government increasingly began to determine prices. For example, 'the average number of crops supported was raised from nine in 1961-63 to seventeen in 1970-72 to twenty-three in 1978-79. Correspondingly, the share of purchases in agricultural GNP (AGNP) went up from 7.8 to 13.0 per cent and then to 15.2 per cent' (Olgun 1991:239). A number of state agriculture enterprises were established to procure and process locally produced agricultural products in factories such as *FISKOBİRLİK* [hazelnuts], *TEKEL* [tobacco], *SÜT KURUMU* [milk], *ÇAYKUR* [tea] and *ET ve BALIK KURUMU* [meat and fish] (Olgun 1991:239-40).

State intervention in the price fixing of agricultural products did keep down the level of poverty to some extent but failed to prevent or even to control the speed of migration to urban areas. This was mainly because a decline in agricultural income since the late 1970s meant people were finding it hard to make their living there. Especially, in the wake of the structural adjustment and stabilisation programme in 1980, Turkey witnessed a set of major policy reforms in opening the economy up to the international

market. State subsidies and loans mainly concentrated on the industrial sector in enhancing the capacity of Turkish industrial goods in the competitive international market. Accordingly, support purchases and subsidies to agriculture were reduced dramatically. Even though, after 1980, the state's price fixing of agriculture products did not weaken, support prices for wheat, tobacco, hazelnuts, cotton etc. were gradually lowered and subsidies for fertilisers to various crops declined. It meant that the real income in agriculture began to decline drastically.

It is true that with the beginning of the Five Year Development Plans in 1962, the State gave various incentives to create modern rural industries according to which specific regional potential could be positively transformed into thriving business. For example, fishing, the textile and carpet industry, beehive making, wood industry, livestock and animal husbandry were considerably encouraged. Despite these attempts by the State, rural industry in Turkey has failed to achieve the targets of earlier expectations. There are a number of reasons for this; firstly, the lack of capital prevented people from making big investments. In the textile industry, for example, new machinery, lathes and looms required a significant amount of capital. Hence, people who worked in the rural textile and carpet industry were forced to use mainly rudimentary technology and had to resort to employing unpaid family workers in order to survive (Ayata 1982). The intensive use of low level technology in these industries precluded further growth. It was mainly by the use of unpaid family labour that small scale firms survived in the rural textile and carpet industry (Cinar 1988:290-291 and Evcimen 1991).

Secondly, the market that rural industries had access to was rather unprofitable and limited. For example, in the carpet industry, there was a growing competition from urban areas, where the use of technology was relatively more modern and utilised by big textile and carpet factories established around major cities (Ayata 1982). Ayata argues that despite strong competition from the modern units in the urban areas, the small scale carpet industry in the rural areas has been able to make a reasonable capital



accumulation to survive. However, these industries have not been successful enough to reach to international markets in comparison to large textile and carpet industries in big cities. Nevertheless, a large proportion of population in these areas was employed, since carpet industries find it easier to concentrate on intensive use of labour. In livestock and animal husbandry, major markets were also too far away. Modern animal farms were set up around major cities in such growing numbers that these modern farms began to capture the markets in remote areas of the country. Last, but by no means least, access to better employment opportunities in rural areas was almost impossible because the scarcity of secondary and high schools meant there was little of the employment training or technical skill development that is so necessary in setting up successful businesses which could have created jobs for others.

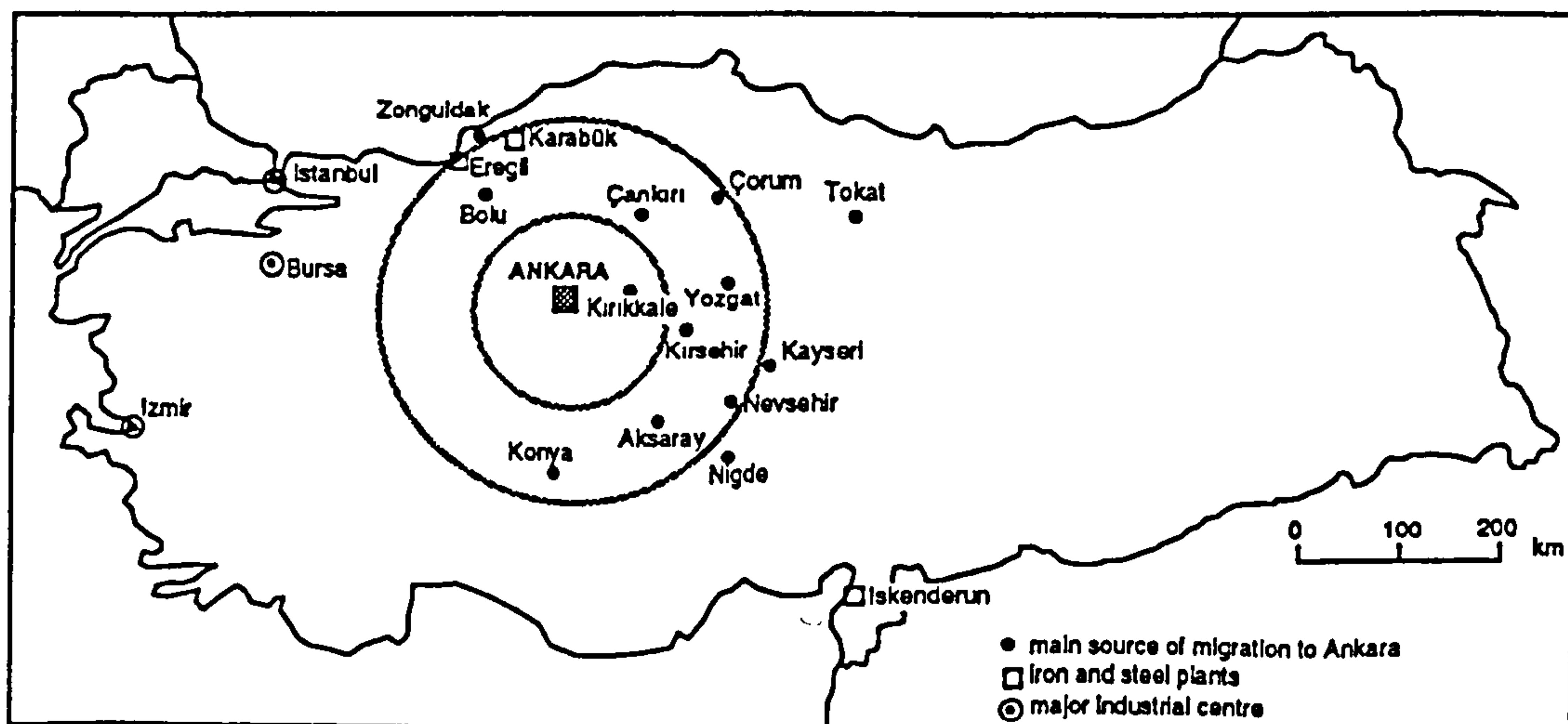
An essential point that underpins all discussion on migration is the scarcity of land in the rural areas. Although Turkey is a relatively large country [it is twice the size of European countries such as Germany and France] and comparatively less populated [the population density is almost half of the European average at 78 people per square kilometre in 1990], the scarcity of good or irrigated land has been an important factor that has pushed people to urban areas. One of the main reasons, as mentioned previously, is the fragmentation of land from one generation to next. Secondly, agricultural mechanisation has driven some sharecroppers out of the countryside and, more importantly, the new-found economic vitality of the towns promised more remunerative employment. Thus, it was not necessarily the landless who migrated to city, but also the lone young male whose family continued to cultivate its plot in the village (Keyder 1987a:135). Especially after 1980, the state gradually began to cut subsidies to agriculture and re-directed credits and loans mostly towards industry. When peasants compared the living conditions of rural life with that of cities, they felt that cities offered a more attractive life style and migration was soon to be the answer. In the 1950s, people in rural areas in Turkey believed that the ground in Istanbul was paved with gold.

Peasants' migration to the city is not merely as a result of socio-economic transformations in the rural areas, such as the effects of mechanisation, fragmentation of land from one generation to the next due to the inheritance system and the traditionally high birth rate in the countryside. They also include the fact that the city was thought to promise better living standard. As a consequence, peasants migrated to Istanbul, Ankara, Izmir, Bursa, Adana, and Izmit which are major industrial centres in Turkey especially after the 1950s.

As far the case of migration to Ankara is concerned, the source of migration usually comes from areas of 200 km or less to the east, which can be seen from Figure 1.1 below. The geographical proximity of Ankara means that migrants can more easily keep in touch with their remaining family members and/or relatives and this facilitates various forms of socio-economic ties such as financial support, helping families and relatives or their children to carry on their education after primary school in the city.

**FIGURE 1.1**

**Main Sources of Labour Migration and Raw materials Supply for Ankara.**





The extent to which small scale economic activities have created opportunities for urban migrants has been mainly owing to the development of the industrial sector in Turkey. One reason that so many people are trapped in occupations in the informal sector lies in the shape of the industrial sector. The extent and the size of the industrial sector in Turkey are also important issues in explaining the reason why the number of people working in the informal sectors of economy has increased.

There are number of reasons for this. First of all, the industrial sector has not been large enough to incorporate all surplus labour in the urban areas. Secondly, along with heavy industrialisation since the late 1950s, there has been an increase in the demand for technical skills for different tasks which urban migrants are clearly unable to fulfil. On the other hand, a rapid growth in the services sector has created occupations for white collar workers who have better educational qualifications which again urban migrants could not respond to. Even though demand for semi-skilled labour has also increased, particularly in construction and in building industries and as a consequence of massive investments from the state for completing the infrastructure, building new roads and dams, these jobs are by no means sufficient to absorb the rural migrants.

After 1960, large industrial plants were established by the private sector to meet internal market demand for consumer goods, especially durable goods, which, in turn, created jobs for a skilled, semi-skilled and unskilled labour force. The state also invested heavily in manufacturing industry in general, and in steel, iron, chemicals, cement and plastic in particular, to produce mainly intermediate goods for the private sector which, again, provided many jobs for people with various technical qualifications.

All this rapid economic progress in the urban economy, however, has not effectively solved the problem of increasing unemployment in the urban areas since rural migration has not lost its momentum. The lack of housing, along with rising unemployment and the urban requirement for a more skilled labour force, did not deter



rural unskilled labour from migrating. As a result, in a very short time, there was a surplus of labour in the urban areas. Current major problems in Turkey are, on the one side, rural depopulation and on the other, uncontrolled urbanisation. Because of the massive migration, a significant part of cities in Turkey have more a rural rather than an urban character.

The movement of people to cities and the reason(s) behind this have been widely discussed in the literature. The majority of migration studies point to the fact that migration in developing economies results from economic reasons such as the possibility of higher incomes and better living standards. In this respect, Todaro has made an important contribution to the literature on the issues of the understanding of rural and urban migration in developing countries. According to Todaro, the primary aim in migrating to cities is economic. He concedes that non-economic factors influence the decision to migrate but he attributes only a secondary place to these in the decision making of potential migrants. As Todaro puts it: 'in addition to primary economic motive, people migrate (a) to improve their educational and skill level; (b) to escape social and cultural imprisonment in homogenous rural areas; (c) to escape from rural violence and political instability; and (d) to join family and friends who had previously migrated to urban areas' (Todaro 1980:66). On the other hand, Fapohunda has also added that 'it is the demonstration effect of the coming home of the former migrants that makes potential migrants decide to go to the city' (Fapohunda 1985:13).

As far as the Turkish case is concerned, it has been mainly economic factors that influence potential migrants to migrate to the city. In Turkey, one of the important factors in influencing the decision making process for migration is the chance of obtaining a job in the formal sector of the economy. Besides, the urban informal sector provides better prospects and income earning possibilities than the rural one. In addition to this, as it is in other developing countries (Gould 1993:170) there is a strong and positive relationship between education and the decision to migrate in Turkey.

Opportunities for education in the city draw people, especially the young generation, towards urban areas.

Until very recently, the Turkish government was not very keen to control the excessive migration, as it was considered that movement of the surplus labour from rural-low productivity areas to urban-high productivity areas was positive. However, further decline in agricultural income after 1980 accelerated the speed of the migration and thus caused a high rate of unemployment in urban areas. Nevertheless, rising levels of unemployment and growing surplus labour in the urban areas have failed to prevent this migration from continuing.

It is central to my thesis that uncontrolled migration from rural areas to major urban centres is an essential factor in understanding the reasons behind becoming a small employer or working for small employers in Turkey. It can be more clearly seen below how this process has occurred in the social formation of the urban labour market in recent years.

### **1.3 The Urban Labour Market**

The concept of the labour market has been widely discussed in the social science literature in both developed and developing economies. Strictly speaking, the labour market consists of all people who want to work at a particular time and the demand for work, especially in relation to the amount of work available. It is a relationship between labour [employees] and capital in respect to the buying and selling of labour. Buying and selling of labour can occur when there is work available in the market in which the price of labour is determined. The labour market process occurs with the relationship between employers who offer job(s) and employees who seek a job. In this context, it begins with the process of 'informing employers and employees, screening workers and screening employers and lastly the offer to buy and to sell labour' (Fevre 1992:11-12). Although there is always a problem of a limit in defining abstract terms in sociology such as labour market, it is not my main concern to deal with it specifically. Thus, I will take



account of the labour market as the process of supply and demand for labour and its social and economic occurrence.

In a similar vein, there have been considerable debates taking place in the relevant literature in the last decades. One of the debates is centred on the concept of dual labour market which divides labour market into two sectors ; *primary*, which mainly refers to a stable employment mechanism offered by large firms by providing high wages, more autonomous work and better working conditions, and *secondary*, which relates to the patterns of employment mainly among smaller firms which recruit labour among oppressed, marginal, low paid and disadvantaged groups (Doerringer and Piore 1971).

Later on the debates concentrated on the term segmented labour market which permits the possibility that even in large firms, an unskilled or semi-skilled labour force can be regarded as a casual labour force akin to that found in small firms and in the informal sectors of economy. Friedman (1977), for example, divided the utilisation of labour in large firms into two categories, *central* and *peripheral*, thus escaping the more rigid initial formulation of dual labour market argument. Studies on the segmentation of the labour force in developed economies have occupied an important place in the literature on labour markets and in division of labour debates. Atkinson (1984) developed a flexible firm model which has attracted considerable attention in the recent literature. In Atkinson's model, the dichotomy of labour is considered primarily in accordance with *functional* and *numerical flexibility*. In Atkinson's scheme, the segmentation of the labour force occurs in regard to the specific group of the labour force's importance to the firm by dichotomising the *core group*, the *first peripheral group* and the *second peripheral group*. He stated that the *core group*, which is subject to *functional flexibility*, contains a regular full time work force of managers, skilled workers and those whose skills are indispensable to the firm. The *first peripheral group* includes a full time work force, but having relatively lesser skills with less job security within firms and is subject to both functional and numerical flexibility. The *second peripheral group* are those who are supplementary to the first group.

It might be the case that flexible firm models in advanced economies provide new organisational choices to large corporations that need to adjust the utility of labour according to changes and market fluctuations. In that case, even in developed economies, a casual work force could be widely utilised by large firms. These issues have been widely discussed in more detail by a number of social scientists in developed economies (Atkinson 1984, Pollert 1988a & 1988b, Hyman 1989, Piore 1986, Nichols 1986a, Amin 1988 and Wood 1989). But flexibility in a firm's labour practices is not the same as the technological flexibility. Atkinson's model of the flexible firm refers to the employment structure of a firm in deploying labour according to its organisational choices. But technological flexibility of a firm refers to the capacity of a firm to switch rapidly from the manufacture of one product to another in the production process. Not surprisingly, new production debates took place in the 1980s, and a new paradigm of combined technological and employment flexibility emerged in the literature in claiming a new era of industrial development in the advanced economies (Piore and Sabel 1984).

As far as developing countries are concerned, the role of the labour market has been studied from a different perspective. Discussion has particularly focused on the employment structure of the small firm, as a large section of people depend on small scale economic activities. People who are working in small firms have been defined as a casual work force without job security and subjected to the difficulties which small scale firms face. This issue was specifically discussed in the literature on the formal and the informal sectors in developing economies in the 1970s and early 1980s (Mazumdar 1976, Gerry 1979, Moser 1978, Sethuraman 1981 and Schimtz 1982b).

In the formal sector of the economy, large scale firms in developing countries were forced to utilise a form of employment strategy to reduce the cost of production and keep wages down as a number of developing economies opened their doors to the world market. Turkey is not exceptional of course. With this shift in economic policies, large scale firms began to decentralise the production process by subcontracting to smaller firms, in order to reduce the cost of production. In the case of Brazil, Schmitz



well illustrates the linkages between large and small firms in manufacturing in the backyard (Schmitz 1982a). New developments in the production process of decentralisation of production have also taken place in some developed economies such as Italy (Murray 1983 and 1987).

An increasing number of small firms also means proliferation of backward linkages between large and small firms and, as a result, more and more casual workers in smaller firms are being absorbed into this process. A certain amount of casual labour might still function at the peripheral parts of the production process in large firms, but they are increasingly subject to worsening employment conditions, as flexibility allows the firm to diversify the production process by creating smaller units according to changes in the market.

That is why the number of people who work in small scale economic activities is constantly increasing because the formal sector of economy is unable to provide stable employment (this also applies to the educated labour force and the semi or less skilled labour force). It is not surprising then that in Turkey, more than 60 per cent of the economically active population is employed in small scale economic activities.

The structure of the labour market in developing countries mirrors the circumstances in society and the struggle for survival by the people in these economies. What is central to my thesis is that the patterns of the urban labour market in a developing economy like Turkey are associated with the factors that force people into the world of the small firm. Therefore, it is essential to understand the role and the position of small firms in the labour market. It is also important to identify labour market related issues about how and where these patterns occur and have occurred in Turkey.

A coherent picture of social and economic formation in Turkey can be clearly seen in the context of the urban labour market. Excessive growth of population both in the rural and urban areas, migration towards cities, rapid urbanisation and booming industrial development in urban centres have all led to an urban labour market that is in

disarray. Urbanisation has never been controlled or planned and therefore, *gecekondu*<sup>1</sup> (shanty towns) surround cities. For instance, it is estimated that more than one third of Ankara which had a population of 4 million in 1993, is actually living in *gecekondu*. In some ways, the state indirectly encouraged the mushrooming *gecekondu* districts as they become settlements of poor people who provided cheap labour for industry (Demir 1993:68-76).

The survival strategies of urban migrants lead them to enter various forms of urban formal and informal occupations, such as being an employee in an industrial plant, doing peddling jobs on the streets, working in small scale economic activities, increasing the number of working persons within the family by allowing children and females to do some domestic work outside the family and, especially during the weekends, for those who are employed in the formal sector such as lower grade clerical workers in the services sector, taking on a second job in their free time (Demir 1993:70).

Criminal activities such as plundering, fleecing, robbery and prostitution are also increasing among them as some marginal segments of urban poor begin to find it increasingly difficult to survive in the urban context. However, it is almost impossible to calculate to what extent the urban poor are involved in these kind of crimes as there is no statistically reliable data on this matter.

Despite a noticeable decrease in real income in industry in Turkey since 1980 (Boz 1992:101-102), it is right to argue that one way or another, the urban poor who are mainly migrants from rural areas, have been able to develop various forms of survival strategies that have underpinned their stay in the urban areas. Settlement in the *gecekondu* districts minimised the cost of living in cities and an extra contribution is often made by a member of the family working in informal economic activities.

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<sup>1</sup> The *gecekondu* or shanty town consists of people who mainly migrate to the city and who establish the right of residence by putting up a dwelling overnight.



An important point to be made here is that the majority of urban migrants have made their living through small scale activities in the informal sector of the economy. The small scale informal economic activities in the industrial estates to which they are driven, provide better prospects for work and life style with more advantages than do other urban informal insecure occupations, such as peddling work on the streets, domestic work and seasonal work in construction industry. For working in estates not only provides regular work to urban migrants, but also makes it possible for them to acquire technical skills so that in the near future it could be easier for them to set up a new independent business. Of course, compared to regular and more secure jobs in the state departments and big industrial plants, working in an estate offers worse working conditions, low pay and long working hours. Nonetheless, in the absence of access to these occupations, working in an estate remains the only option people can rely on.

Whatever job people do in industrial estates, it demands responsibility, resistance to hardship and commitment for achievement. To be successful in business in an industrial estate is not an easy task. However, the second generation of urban migrants seems to be relatively successful in managing to deal with problems. Once they perceive how to prevent business from failing, they gradually attempt to promote and develop their business activities.

In my interviews, small employers who had degrees from a university or technical college complained about the number of less educated and informally trained employers. They asserted that they reduced the quality of products in the market. But small employers who gained technical skills via training at work claimed that it was they who knew the practical and more efficient way to work and hence to increase the quality of product. They claimed that people, particularly those who were educated at technical colleges, learnt things that were already out of date and that they were not aware of practical ways of producing things cheaper, quicker and easier. None of the employers with primary and secondary school education criticised the growing number of people with university degrees, taking their technical and managerial superiority for granted.

However, people with university degrees asserted that especially people with primary school education who acquired their skills by working on the shop floor, not only reduced quality but also dropped the profit margin by discounting every offer in order to get orders. They also claimed that current orders were getting more and more design based and that the precision of customers' demands for different goods necessitated a high level of theoretical and practical knowledge of design, something which the less educated ones were unable to fulfil. A small employer with an engineering degree stated that 'the future of those less educated small employers is darkening'. Nonetheless, small employers with less education deny this and claim that they are experienced enough to be resilient against changing circumstances

As far as the technical skills of small employers with primary school education are concerned, they are good technicians, capable of doing different tasks. Their main drawback is their lack of project and design knowledge which prevents their firms from growing further. As a result, many small employers expressed their desire for their children to study engineering. Bearing in mind the issues of the skills, work experiences and the system of workers promotion from apprenticeship to journeyman [which will be dealt with in more detail later in this thesis], it is worth noting here that the skills that they have acquired through their work experience and entrepreneurship have never been easily obtained.

This process works as follow; workers learn basic technical skills on the shop-floor in an informal way. However, it is necessary to get a certificate from an apprenticeship school, which is nearby where they work, so that they can be officially eligible to promoting from apprenticeship to journeymanship. Moreover, in order to be a journeyman, they must successfully complete technical training school for journeymen, which is also in the estate. In order to set up a business, the prospective small employer must hold a certificate from this kind of technical school. In the estate, an apprentice is expected to go to apprenticeship school twice a week, whilst an assistant journeyman should attend the technical course once a week. This is also the case for a journeyman.



But this rule, according to my observations, is not strictly adhered to by workers, as employers usually want them to stay and work on the shop floor. To small employers, it is a waste of time to send workers there, as one employer stated

I can teach them [workers] better here than they [apprentice and training schools] can teach them there. At best, they should make a general examination for workers at the end of the year to give a certificate to those who pass.

Having said that, the importance of training schools for workers is indispensable as new technologies are introduced and they are trained how to use them. But the main problem for most small employers is that the skill and expertise of the workers who learn to use new technology are not immediately applicable to the work process, as their shops do not own modern machinery and lathes. In addition to this, specialisation on certain tasks learnt at these schools is not useful to the work they actually do in the production process.

Almost all small employers, as stated earlier, had previously worked in the same kind of business. An important point to make here is that it indicates the impact of the urban labour market on urban migrants who carry on working in small firms, since they mostly failed to enter formal occupations in the core-primary sector of the economy. However, when urban migrants make their choice to work in the estate, they also keep in mind the possibility of getting a job in the formal sector of the economy. When I was conducting my field work at OSTIM, small employers repeatedly expressed their desire to work in formal institutions especially in the public sector. As explained earlier in this chapter, it is very difficult for urban migrants to get jobs in the formal sector, particularly in large private and public companies, and as they need to do something to survive, they look elsewhere while continuously searching for a job in the public sector.

**Table 1.2**

**Did you Willingly Enter this occupation?**

**A= Employers with rural origins n= 64**

**B= Employers with urban origins n= 36**

	Employers who willingly entered this occupation n=53	Employers who unwillingly entered this occupation n=47
A	37 %	63 %
B	83 %	17 %

As Table 1.2 shows, 53 small employers out of 100 willingly entered this business, whilst 47 of them did not want to enter this business. The interesting thing is that those born in urban areas, who generally represent the second generation of urban migrants, displayed a more positive attitude to working in small firms (83 per cent) compared to people from the rural areas who showed a more negative attitude (63 per cent) in entering into this business. The reason those from urban areas were more eager to enter small scale economic activities related to their better educational backgrounds which have given them the necessary technical skills, enabling them to set up a business. But for current urban migrants, the situation is not the same, as they have no educational qualifications and necessary technical skills.

At the beginning, it is not an easy decision for urban migrants to enter the world of small firms. The scarcity of capital is a difficult problem as they are not likely to save money for a long time, since it is hard to survive on the low pay. But for the urban born and comparatively well-educated small employers, lack of capital in setting up a business is as much a problem as it is for those from rural origins, despite their technical and managerial skills.

As far as urban migrants are concerned, working in formal institutions of the urban sector is regarded as a more stable and secure occupation. Although the pay is not high, it is far better than in informal activities. To the urban born small employers, working in formal institutions is not an impossible idea and when they make their choice



to be self employed, it is at least one of the options open to them. But for the urban migrant, it is not a matter of making a choice to work in informal activities, it is rather a coercive option.

According to my analyses, there are positive relationships between the origin of small employers and the size and achievement of business, which is in turn associated with various elements in the market. In addition to this, the level of formal education of small employers seems to play an important role in business in general. To this end, a typology of small employers has been developed which will be used throughout the study.

## **1.4 A Typology of Small Employers**

The size of establishment, migration status and the level of education are the key terms in my study as these are very important factors which influence the position and the role of small firms in the economic development and industrialisation process of Turkey, in general, and of the metal industry in Ankara, in particular.

The small employers in my field work can be divided into two main types: the first is made up of those who were born in the rural areas with primary school education and then forced to migrate to cities as result of a shortage of land. Their experiences of work and life in the context of the urban labour market inevitably leads them to the world of small firms. The second type were made up of those who were born in the urban areas and relatively well educated. This group of small employers is more ambitious and has chosen to enter the world of small firms. They are more successful than those from rural origins with primary school education. They employ more workers and use new machinery and therefore make more progress in expanding the size of business. Their vision of the future and the way they withstand the difficulties is rather different from those with rural origins.

The rural migrant employers and the urban employers are well represented below and their profiles mirror the social and economic aspects of small scale economic activities in Turkey.

The story of 64 per cent of those interviewed starts with a migration from rural areas to Ankara, where they sought to make something of themselves. The profile given below is the story of Kemal Usta who has spent all his life in small scale economic activities and seemed much older than his age. He is happier to be where he is now, but disappointed by the fact that more work does not necessarily mean more money and therefore a wealthier life. At the end of our conversation in a crowded and extremely smoky pub in a poor and outlying district of Ankara, he said 'this government should look after those who work bloody hard, and banish lazy people who do nothing but waste our money in this country. If I was in power, as a remedy and only solution to our present problems, I would put all lazy and indolent people to die in exile'.

**a) Profile 1: Kemal Usta (rural migrant)**

*'I was born in [a village to the east Ankara] in 1940. We were six brothers and I was the fourth one. My childhood was poor and tough because my father could not get the necessary income that we needed. The reason was that there was not enough land to support the whole family. Consequently, my father was not in a position to assist us to carry on studying after primary school. To be honest, I did not like schooling at all. However, it would not have made any difference, even if I had been successful at primary school because, in addition to the financial difficulties that my father had in sending us to school, there were no secondary schools in the village. So you had to go to the nearest small town or city where schools and colleges were available. Further, schooling would have cost us dear. As a result, after I finished primary school, I began to support my family, like my other brothers, by working on the land.*

*It was a tradition among us that almost all teenagers of the village, like other villages of Anatolia, would marry before the age of 20. I was no exception of course. I*



*was married, by my father's wishes, when I was 17 years old. After 3 months of my marriage, my father sent me to Ankara to earn a certain amount of money to pay off debts which he had incurred for my wedding. In those years, as it is today in Ankara, a person like me without any skills and qualifications could only go to an industrial estate and work there as an ordinary unskilled worker. Nevertheless, despite the low pay in estates, I was able to earn more money in a blacksmith's shop than I could have made in the village. I soon realised that there was the possibility of being promoted from being an apprentice to assistant journeyman and then to journeyman. I thought that in any case, I would be better off working here than being in the village. Also the land that I would inherit, would never assure the future of my family over there. Therefore, I made up my mind that I would certainly settle down here with my family.*

*In two years, I saved my money, went back to the village and gave the money to my father to pay off the debts. Then, I returned to Ankara by leaving behind my wife in the village. I would not let her come with me, until I got enough income to support two of us with a child. I went back to the same blacksmith's workshop. A few months later, I became an assistant journeyman and then one year later a journeyman. Then, I thought that it was the right time to bring my wife and child down here. I rented a flat in an outlying district of Ankara where poor people live.*

*One year later, at the age of 20, I took my wife and child back to the village and then completed the compulsory military service which lasted two years. After having completed military service, I went back to Ankara to work and settle down there for the rest of my life.*

*I continued to work in the same kind of small workshop until the age of 27. Then a relative of mine, who was a journeyman elsewhere in the estate, suggested to me that we set up our own small business together. I welcomed the offer he made and accepted it. The reason for co-operating to set up a business was the advantage of pooling our capital in order to buy the necessary equipment that a new shop would need most. Otherwise, neither his personal savings nor mine were sufficient to finance setting up a*

*new business on an individual basis. Having said that, the capital that we gathered was still not enough to provide basic things for the running of a business. So we borrowed a few things such as a welding equipment, a metal cutting hacksaw and drilling equipment from our mates and relatives and also bought a second hand lathe, some tools, metal scissors, a milling machine, some machinery for bending sheet metal, an electric iron saw etc.*

*In the first year, we worked very hard indeed. Almost everyday, including weekends, we worked more than 12 hours a day. We were aware of the fact that, we had to repay our loans as early as possible. After the first year, our own business was slowly but surely becoming capable of standing on its own feet. That was achieved by doing all jobs. We accepted all kind of orders, subcontract work, jobbing work and customised work. In order to increase the profit margin which was very low, we stretched ourselves to the limit. In the first year, we did not employ any workers. They normally increase the cost of production, as workers would never work as hard as you and not care for things as you would.*

*Having successfully completed the first and the second year, which firmly consolidated the business, the disputes on how to manage the business between us began. The actual reasons that began to divide us were not a matter of having different styles of managing the business they were more, I think, that, as things went better we did not need each other any more to run the business. As a result, we closed down the shop.'*

*As soon as we shared out the equipment, I set up my own business. Since then, I have been working in my own business. But I continued to work as hard as possible to try to expand or at least to survive. Later on, as a result of my determination and ambition to thrive, I came to OSTIM. I have been able to expand the shop area and gradually bought new machinery. Consequently, I began to employ a few workers. At the moment, I employ 6 workers.*



*To sum up, I did my best and therefore I am not complaining about the things that I had to put up with. I certainly know that things would have been much worse, if I had stayed in the village.'*

As can be clearly seen from the profile of Kemal Usta, along with factors that forced people to urban centres, the attractiveness of the urban life style relative to a rural one also draws them. In my field work, people always tend to say that, despite many difficulties they face in the urban labour market, once they begin to settle, going back to the village is more unlikely. Even if at the beginning, the main idea for some of the rural migrants who have got relatively sufficient land to rely on is to save a certain amount of money and then go back to the village, they soon realise that urban life offers better opportunities than agriculture because the real income is declining day by day in agricultural activities *vis-a-vis* industry. Subsidies to agriculture, as explained earlier, declined dramatically especially after 1980. Another reason contributing to the decision to stay is the presence of colleges and universities in the urban centres. These are considered important for their children's education and upward social mobility. Many small employers at OSTIM indicated this as one of the main reasons they decided to stay in the urban settlements.

The resilience and success of the second generation in the urban context is well illustrated in an other profile. Profile two, below, illustrates not only the difficulties that urban migrants have faced, but also expresses the progress of the second generation migrants who make up 36 per cent of those I interviewed. Ahmet Usta was tremendously proud of himself. Despite his feeling of success, he gave me an impression of being very tired. By hiding his greasy hands, he was trying to justify how successful he had been and how he had achieved a better standard of living. His face was extremely smeared with grease. At the end of our conversation, he had impressed me strongly with the resilience of small employers in OSTIM, despite the many obstacles they face at the market.



**b) Profile 2: Ahmet Usta (second generation urban born in Ankara's gecekondu district)**

*I was born in a gecekondu district of Ankara in 1952. My family was very poor, due to its recent migration from the village. They had decided to move to Ankara as there was nothing left for the family to survive on. After my father had sold all except one piece of inherited land from his father, he came down to Ankara to make his living and then stayed on. Just in case, we still keep a very small piece of remaining land over there and we do not want to sell it, as who knows, we might need it in the future.*

*Anyway, my father was a blacksmith in an estate, but he died when I was 9 years old, while I was in the second year of primary school. We were, in all, one sister and three brothers. Although I was the youngest one, I also had to leave primary school in order to help my family. In those years, all of us had to work to support the family. My sister did domestic work, whilst the three brothers were working in an industrial estate. The reason why we immediately began to work in the estate was because we had no alternatives, no skills or qualifications and no capital to set up a small business. Moreover, we were all under the age of sixteen.*

*At the industrial estate, I began to work in the metal decorating based shop until I was 20 years old. I was, promoted from being an apprentice to an assistant journeyman and then to journeyman. I must point out the fact that the pay was terribly low, particularly during the period of apprenticeship and being an assistant journeyman. It became relatively better when I was promoted to journeymanship. Having said that it was never satisfactory when the work I was doing was compared to the pay I was getting for it. Until you became a journeyman at estate, you have to learn how to cope with hardships. It is not only a process of training to acquire technical skills: it is also a matter of putting your strength to the test, your patience and endurance. I think, I successfully withstood these difficulties and learnt how to manage to get on with it.*

*At the age of 20, I did my compulsory military service for two years. After that, I married, and I did not want to work in the estate for someone else. Instead, I wanted to work for myself.*

*The problem was that I needed a lot of capital to set up my own business. I tried to do jobbing work with a few portable tools and mobile equipment. I did the jobbing orders where they were given. I worked for construction companies on housing estates. Since I was working in different places, I did not pay any tax or rent. For several years, I worked just like that. The main problem was that it was not regular work. It was rather seasonal work that was very heavy during the summer months and almost came to a halt in winter.*

*Having said that, this kind of tacheron work<sup>2</sup> helped me a lot to save a certain amount of capital to set up my own business later on. At the age of 30, I managed to set up my own business in metal decorating. After that, in 12 years, I expanded the size of the shop floor, bought some lathes and appliances for different tasks and employed several workers. I employ 8 workers at the moment and I have my own car and a house. The reason that I did so well so far, is that I worked to a standard of perfection. I worked very hard indeed. I learnt how to survive and how to increase business activities making more profit by doing different tasks at different times according to profitability. As a result, I deserve to have reached that point.*

*I have got many things that I would never have dreamt of when I was younger. I have built myself right from zero. This is where I am now and I really would like my father to see this place.*

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<sup>2</sup> In Turkey, tacherons do jobbing work. This is especially widespread in construction. Under such an arrangement the work is carried out unofficially and it is possible for both sides to benefit by avoiding taxation. In short, it is a form of subcontract work that is not mainly based on formal agreement and is done in places where the task of work is taken. Proximity of tacherons to places where the work is undertaken is an important factor in reducing the cost of work taken and therefore essential to increase the profit margin. In the fieldwork, almost all small employers complained about tacherons although sometimes they are also driven to do the same kind of tacheron work when offered.



*Sometimes, I wonder where I could have ended up if I had gone peddling on the streets or had gone back to the village to work as a seasonal worker. What I am certain about is that, I would be much worse off.*

*Although I have done my best to get my business here, I still believe that I cannot afford to relax. Further expansion of the business requires more technical and professional knowledge. That is why, I sent my son to private college. I want him to study engineering and wish him to carry on with my business as an mechanical engineer. But I will not send my two daughters to study in private college as it is too expensive. They can go to public college, if they want. I do like my daughters, but to be honest, I rely on my son.*

*My father left nothing to me to survive on, I know that it was not his fault, but my son will feel grateful to me that I have left sufficient things to guarantee his life. I want him to expand business as much as possible as he will be able to use his technical and professional knowledge more that I have been able to.*

**Profile Three** below shows the case of Mehmet who is third generation urban born. It also clearly demonstrates the importance of educational qualifications and technical skills in running a business.

**c) Profile 3: Mehmet (third generation urban born)**

*I was born in Ankara in 1955. My father was a white collar state employee in a public institution. We were two brothers and one sister. I was the eldest one. I was a successful student and I graduated in mechanical engineering from a technical university in Ankara. After having graduated from the university, initially, I worked for a few years in a big private company where I was doing engineering work. Despite the relatively fair pay in that company, I did not continue to work there.*

*I thought that I could earn more on my own than by working for someone as I had technical skills and managerial experience. In addition to this, when I was working for a*



*private company, it seemed to me that the market was full of opportunity as this company was making huge profits.*

*Before I decided to set up my own business, I searched out the best thing to do in order to make a reasonable profit. My biggest problem was the lack of capital, not anything else. I knew better than many others how to invest, how to take risks and how to capture opportunities in the market. I got a certain amount of money from my father and borrowed some from friends and then added to my personal savings that I earned in that private company, in order to set up a business. Eventually I set up in business processing spare parts for auto vehicles.*

*From the start I aimed to expand the business in accordance with market demand by employing new workers and buying new machinery and lathes. In the early years, instead of staying at the shop waiting for customers, I looked around and sometimes visited a few large firms around Ankara to ask them whether they need something to be done. In fact, I had a significant amount of work, especially from the tractor factory.*

*After four years, I began to think of the possibility of bidding for contracts. It has been almost impossible to get work in the public sector as other more established firms give bribes to those who are in charge of giving contracts and thus favour them. I have to admit that this is the biggest obstacle against the growth of my business. Nevertheless, I have won a few contracts and contractor firms have found my shop does high quality work. I am doing all right at the moment although there are these barriers that I face which prevent me from making better progress in expanding the size of the shop. I also know that, even though my ambition and determination to work harder might improve the condition of my business, it is unlikely to overcome the difficulty of getting the most profitable bids.*

*After all, I should point out that I do not regret deciding to work on my own account. I have got my own house and a car and this is what the life is all about, isn't it?*

As can be clearly seen from these profiles, whatever the outcome of the struggle to reach a desirable point, small employers whether urban or rural born have to dedicate themselves to handling difficulties in business. Their commitment to achievement is important if they are to protect their business from failing. Although at first sight it seems that urban migrants find it difficult to start their own business and to learn how to survive, later on they can fare better in the market and sometimes then can thrive. Of course it is never easy to do so but it is not impossible.

**Table 1.3**  
**The Relationship Between Birth Place and Educational Background**  
A= Small employers with primary school certificate, n= 52  
B= Small employers with secondary or high school certificate, n= 32  
C= Small employers with university degrees, n= 16

	Employers who were born in rural areas n= 64	Employers who were born in urban areas n= 36
A	72%	17%
B	22%	50%
C	6%	33%

Table 1.3 clearly indicates distinctive characteristics of the two groups I have mentioned above. The differences between these groups vary on a number of issues. As can be clearly seen above, small employers with urban origin are well educated, compared to those with rural origins. In fact, 79 per cent of small employers with urban origins are second generation urban migrants, whilst 21 per cent represent the third generation. Interestingly, none of them are beyond the third generation. This might be explained by the fact that when Ankara was chosen as the capital city of Turkey in 1923, the population of the city was around 20 thousand. It was a backward looking small town at that time, but since becoming capital, the population has increased rapidly and its population was around 4 million in 1994.



As Table 1.3 shows, small employers with primary school education occupy the biggest share of the 100 I interviewed, at 52 per cent. Whilst small employers with secondary school education make up 32 per cent, people with university degrees account only for 16 per cent.

Small employers with primary school education mainly run smaller establishments. Table 1.4 illustrates that, whilst small employers with primary school education mainly own small and medium establishment, employers with university degrees own larger establishments. However, small employers with secondary or high school education are likely to own medium sized establishments with 4-6 workers.

**Table 1.4**  
**The Relationship Between Level of Education and the Size of Establishment**

A= Small employers with primary school certificate, n=52  
B= Small employers with secondary or high school certificate n=32  
C= Small employers with university certificate n=16

	Establishment with 1-3 workers n=20	Establishment with 4-6 workers n=46	Establishment with 7-10 workers n=34
A	29%	48%	23%
B	13%	53%	34%
C	6%	25%	69%

The second generation urban migrants face tougher conditions relative to the third generation. This is mainly due to the fact that the third generation is relatively settled and has comparatively easier access to education. But the way both the second and the third generation enter the labour market is similar. Education is what they rely on to improve the conditions under which they live and work. Although some of the second generation find it difficult to carry on with formal education after primary school, their experience and knowledge of urban life make it easier to progress in the urban context.



It is also worth mentioning here that differences in size of establishment do have some connection with establishment age. All things being equal, younger establishments are likely to be smaller. Thus, the very 'small' establishment in the sample (1-3 employees) had an average age of 6 years; the 'medium' small establishment (4-6 employees) had an average age 9.7 years; and the 'larger' of the small establishments (7-10 employees) had on average been in business for 12.7 years.

However, at OSTIM, other things are not equal. It is not simply that poorly educated rural migrants are less likely to own the larger of OSTIM's firms. While under 20 per cent of rural migrants with no more than primary education run larger establishments compared to over 40 per cent of those urban born employers who have been educated beyond primary level, run larger establishments. It is *also* the case that it takes *longer* for the poorly educated rural migrant to make it to the larger firms at the top of the pyramid: those larger employers at OSTIM who started out as rural migrants with only primary education have an average business experience of 17 years; by contrast, urban born larger employers with secondary education have an average business experience of 12 years; by yet greater contrast, urban born larger employers with university education have an average business experience of only 8.5 years.

For the most part, to be urban born is to be better educated; to be rural born and to migrate to the city is to lack much formal education. The importance of this difference in education, and what it means for life chances, and for children born respectively in urban and rural areas, is something which peasants may well have weighed in the balance when deciding to migrate. Like migrants in other developing countries, and indeed like factory workers in advanced capitalist countries, they may see themselves as making steps forward, not simply for themselves, but for later generations of their family (Chinoy 1955; Todaro 1980; Gould 1993). However, having arrived at OSTIM, the economic and social structure is fused in such a way that the rural migrants, in their typically smaller establishment, find the odds are still stacked disproportionately against them.

## 1.5 Conclusion

In OSTIM, the path from apprentice, to assistant journeyman, to journeyman, to small employer is one that has been well trod by rural migrants. A long march can lie ahead of those who will eventually join the largest of OSTIM's small employers, however, not all will make it far enough to become the smallest of small employers anyway. For every small employer at OSTIM there are, on average, six or seven workers and there are many journeymen who are in their forties.

OSTIM's small employers inhabit a stratified social and economic structure and not all of them are affected to the same degree. According to my findings, a good general indicator of an employer's position in this structure is given by the number of workers that they employ, for size of establishment tends to correspond with both the social differences between them and the different severity of the problems they are likely to face. It is the better educated and urban born small employers who are likely to run the larger establishments on the estate.

The hundred small employers who are the subject of this investigation had survived and were in a sense a self-selected group but even some of these were driven at times to perform wage labour for others. They found their prices undercut by journeymen who were trying to tread the very path that they had trod before. And although many small employers at OSTIM complained about tacherons, on occasion some of them are also driven to working in this way in order to get by themselves.

It is especially the case with the small rural migrant employers that other family members may have to contribute to the survival of the business through the money they earn elsewhere. Children and other relatives may also contribute through working directly in the business. Rural migrants often need little to convince them that urban life offers better opportunities than agriculture, where the prospect of gaining an adequate

living are clearly in decline. Yet, OSTIM is itself a site of class formation which is informed by differential advantage.

The next chapter examines the impact of the urban economy on small firms and the effect of small employers backgrounds and level of education on their differential access to subcontracting and raw materials.



# **CHAPTER 2**

## **THE WORLD OF SMALL FIRMS IN TURKEY**

### **1. Introduction**

The previous chapter explained the connection between migration, urbanisation and formation of small firms in the cities. This chapter examines the difficulties that small firms have in operating in the market. The issues that this chapter deals with are the problems of paying off and getting payments, the form of subcontracting relations, the difficulties in getting raw materials and the role of competition.

Considering the urban labour markets in developing countries, the issue for a large section of the population seeking jobs is not so much the question of exploitation, but rather one of finding employment. The foremost problem is thus how to get a job. It is therefore essential to re-examine the view that in small scale economic activities, the informal sector provides income for people who would otherwise be unemployed.

In the course of this chapter, I will attempt to clarify the difficulties facing small firms at OSTIM. I will be examining whether small firms are capable of overcoming these difficulties and whether they have the capacity to provide better income opportunities for people who work there. I will also examine whether small firms have a growth potential and whether they have the ability to make a positive impact on the Turkish economy. I will specifically explore difficulties and obstacles in the market that affect the world of small firms in Turkey.

### **2. Financial Difficulties: *Problems of payment***

One of the major concerns of small employers in OSTIM was the problem of payment. Financial problems in general and the problem of how to pay off debts and get payment for work completed in particular were reported by small employers as being one of the biggest problems that they face in OSTIM . These are mainly due to a lack of

working capital among small firms that made them vulnerable to fluctuations in the market. In particular, the form of payment systems in OSTIM that is partly based on an informal, personal agreement and cash transactions decreased the profit margin drastically.

After training through apprenticeship, everyone in OSTIM is a potential starter of a new business but the lack of capital is one of the biggest constraints to the growth of small firms. Therefore, it is important to examine the way small firms are founded. As seen in Table 2.1, a majority of small employers were originally former workers in the same occupations., which indicates the determination of workers to set up businesses on their own account.

**Table 2.1**  
**Former Occupation of Small Employers**

No other former occupations	86
White collar worker	5
Small employer in other occupations	4
Others	5
T o t a l	100

The real income of workers in the estate is not enough for them to save a certain amount of money to set up a new business. As the profiles in Chapter One illustrate, various factors emerge to underpin the efforts of journeyman in setting up a business, such as financial solidarity among relatives and friends, establishment of a new business by two or more people by pooling sources, working illegally on jobbing work, the borrowing of equipment and tools among close relatives and friends, also the easy availability of second hand machinery and lathes in the iron mongery bazaar. Table 2.2 below, shows that small employers rely heavily on private savings and personal borrowings in order to set up a business.

**Table 2.2****How Did You Get The Capital to Set up Your Business?**

Mainly from father	15
Mainly from private savings	11
Mainly from personal borrowings	1
Mainly from father and private savings	10
Mainly from father and personal borrowings	2
Mainly from private savings and personal borrowings	54
Mainly from his father, private savings and personal borrowings	5
Others	2
T o t a l	100

According to Table 2.2 one of the biggest sources of capital in setting up a business is from private savings and personal borrowings. The second source of capital, which is much less frequent, is from the father. Nevertheless, none of the participants got capital from banks in setting up business. Earlier expectation was that, at least small employers with better education, technical qualification and urban origin would get a certain amount of capital from banks, but this expectation was not confirmed. This can be partly explained by lack of entrepreneurial skills among new starters. Other factors could be the unattractiveness of bank credit because interest rates are too high and conditions are too tough to abide by. In addition to this, the majority of small employers are not aware of the possibility of getting credits from banks not only at the time of setting their business, but also after years of experiences as well. These issues will be more clearly dealt with later on in this study.

According to Table 2.3, the biggest problem that small employers face in OSTIM is to do with the difficulties in getting and making payments. It is this, along with the



lack of demand in the market and excessive competition which are regarded as the major problems that restrict the growth of small firms. In fact, when they have disputes with their workers, all small employers find it very difficult to overcome these major financial problems.

**Table 2.3**  
**What Do You Think are The Most Important Problems Your Business has to face Today?**

Difficulties to make and receive payments	99
Lack of demand	91
Excessive competition	91
Access to credit	87
Inflation	83
Access to raw materials	83
Taxation	77
Lack of skilled labour	73
Access to bids	50
Disputes with workers	6

**Note:** The columns should not necessarily be numbered as 100 since small employers were allowed to choose more than one of any combination of categories given above.

More specifically, the way financial difficulties hit the firm’s operations is as follows. When a firm gets subcontract work from a client or a subcontracting company, 30-35 per cent of the payment is made in advance and the second part of 30-35 per cent is made when a specifically agreed part of the work is finished. The final part of 30-35 per cent is paid when the subcontract work is completed. In OSTIM, this form of payment system is common. But an increase in the initial payment was regarded as vital for small firms. In my fieldwork, almost all small employers said that if they got 50 per cent of payment in advance, they could overcome the difficulties caused by insufficient working capital particularly in getting access to raw materials.

When a firm gets 30-35 per cent of cash, the small employer buys as much raw materials as possible. Many of them said that they were financially incapable of buying all the raw materials with one third cash payment. Buying all the raw materials is essential for the firm as the rate of inflation has been around 50 to 70 per cent for several years in Turkey. Even a month's delay in buying raw materials could immediately mean 5 per cent loss in profit which is usually low. The main problem is always the last part of payment. As soon as the subcontract work is completed, the firm or client that gave the subcontract work often delays the last part of the payment and sometimes it is never paid. Small employers have to make several attempts to get the remaining payment. This reduces the expected profit margin further. Some small employers said that they sometimes waited for a year to receive the payment. As one of them said:

We are all working gratis for our contractor parent firms, since they do not pay off and we do not get the final payment in time. There is nothing we can do about it. If we seriously force them to pay off, we will never get any work from them. If we do not force them, we will never get the payment in time. What can you do?

The delay in payment is one of the biggest obstacles keeping the profit margin low, although the lack of working capital and high rate of inflation also compound the financial difficulties of small firms. Factors such as access to credit, lack of skilled labour, taxation, access to raw materials and excessive competition are all associated with financial difficulties from various perspectives, but those factors will be elucidated in more detail later in the course of this chapter.

Although agreements on payments are made on a formal basis between small firms and clients or a subcontracting company, the way both sides fulfil the condition of the agreement is not always in conformity with formal and legal procedures. Personal promises and pledges on a rather informal basis are more prevalent in OSTIM. Even when this informal promise fails to be fulfilled by one side according to the agreed conditions, the other side, which is usually the small firm, is not eager to take legal action immediately. They try to get the money owed on an informal basis, such as visiting,



making phone calls or sending an apprentice to ask for money. They resort to legal action only after failing to get money for a considerable time. When I asked them to explain the reason for not taking legal action immediately, they complained about too much bureaucratic formality and their lack of ability to deal with legal procedures, especially as they were busy and not in a position to waste time. Especially, the common idea among small employers is that if they decide to take legal action, larger companies will find some or other way to escape from being punished by law.

The informal agreement based on personal and family relations is a significant aspect of social solidarity for small employers. This case is well explained in a Turkish saying of 'help me to help you'. Of course, small employers are not keen to get into trouble, but the way they take risks is quite surprising. Taking risks intensifies when small firms are not working to full capacity, because the amount of work they do is clearly not enough to make a certain amount of profit in order to pay fixed costs such as rent, electricity, phone bill, postage and payment for workers.

Abdullah's case clearly illustrates the financial difficulties which small employers can face. Abdullallah was a man who failed to get his final payment from a client about whom he knew little. As such, his case underlines the importance of solidarity among relatives and friends in the face of adversity.

#### **a) Case One (Abdullah)**

*'Two years ago (in 1990) I set up my business. As you know, at the beginning, you have to work very hard to overcome the problems which might harm your business. Therefore, I was careful not to take too many risks. Having said that, sometimes you never know whether you are entering into a dangerous situation or not.*

*Right at the beginning, as I was not very well known in the estate, I was doing sub-subcontract jobs for my former boss who helped me a lot in setting up my own business. He was also subcontracted to someone else. In addition, a few of my friends in the estate used to give me something to do so that I could carry on. But I knew that this situation*



*was not going to last forever. Therefore, I had to do something to rely on myself rather than on others. I thought that I would have more profit, if I got my own subcontract work directly from clients.*

*As a result, a few months later, I began searching to make a direct contact with some people with whom I could possibly get some work to do. Eventually, in a restaurant, I accidentally met a man who was looking for someone to carry out a subcontract work. But he was trying to find the cheapest way possible. I explained to him what the actual market rate was for this kind of work. I said I could do the job in a just under the market rate, if he paid me half of the money in advance.*

*He offered the subcontract work to me. But he said that if he gave half the payment in advance, the rest would only be given at the end. As far as the agreement was concerned, I was lucky to get a half of the total payment in advance, which rarely happens around here. On the other hand, he was also lucky not to pay half of the payment until the end. Anyway, eventually, we made the verbal agreement there and then the formal agreement in my office. All this happened on the same day.*

*The man who gave the contract work was selling spare parts to the market. Actually, he had no specific shop or store which could be given as an address, but he said that he had a medium-sized spare part store in Karabük [a town around 200 km from Ankara] I believed him. He gave me the address of his store and the phone number. But he said that , I would never need to use this information for correspondence, because he would be in Ankara until the job was done. So he would always keep in touch with me. For that reason, I did not worry about it.*

*The subcontract work was for a few auto spare parts. I agreed to make a couple of hundred specific items. These were truck double differential gears, transmission gears, bolts, nuts and other gears.*

*In those days, I was only employing one assistant journeyman and an apprentice both of whom were my relatives. In order to complete the work, I needed to temporarily*

*employ two more journeymen. I had only one second hand lathe machine which was not enough. I borrowed one lathe from a relative of mine (a cousin) who was doing the same kind of work at the estate. A friend of mine also lent me one of his journeyman. To start with everything went well. I was expecting to get around 15 per cent profit.*

*I was given 4 months to complete the job. Eventually, I began to do the job. The shop was working at full capacity. When I finished specific items, he would come to the shop to collect them. It continued just like that until the final part of job was done. Then he did not come on the day he promised to pay the rest of the money and to collect the rest of the auto spare parts. I waited all day but the man did not phone, let alone come. I began to be suspicious about him, because he had almost collected 80 to 90 per cent of the spare parts but had paid for half of them only. In the late afternoon, I phoned the address that he had given to me, but the number that I dialled did not exist. What could I do about it?*

*I did not tell anyone until I was sure. I thought, at least he should come to collect the rest of the spare parts the next day, if something was not wrong. That was my last hope you see, but unfortunately, it was a vain hope of mine. Then, I talked to my friends on the phone to get their ideas. They said "forget him, it is already over". I was very angry not at him, but with myself. I was totally idiotic to push myself into this situation.*

*I swore to find him. I went to Karabük. I looked for the address, but I could not find it because there was not such a place in the town of Karabük. I told the police, but it was useless, because they also could not identify him. Then they told me that they would keep an eye on this matter as long as possible. I went to the same restaurant where we met, to ask people about him, but the result was negative. This man suddenly disappeared and could not be found anywhere. I could not find him.*

*The real difficulties started immediately after I lost him. I was heavily in debt because half of the cost of the raw materials was paid by me and the rest was going to be paid in instalments. How could I pay, if I did not earn any money. But could the raw*



*materials suppliers understand this? Did it really matter to them? The answers were negative. What about the pay for the workers? How could I manage to pay them? How could I pay the rent and the bills for telephone and electricity? How could I justify my foolishness in front of my friends?*

*At the estate, sometimes your friends and relatives become very important to rely on. Especially the relatives, they are like your insurance against difficulties. Thanks to them, [they were his uncle's two sons, one of his aunt's son and most importantly his brother-in-law] I could carry on running my business. I borrowed a certain amount of money to wipe out the debt. They gave me some work to do in order to let me pay off my debt to them. That is, I worked for them. In more than a year, my shop was able to recover from the worst conditions. Since then, I am very careful not to be too weak and vulnerable against some bloody people. At the moment, I am just able to carry on to run my business.*

*At the age of 29, I have just felt that dishonesty, deception and the bribery are all God's terms that test people. God will punish those who misbehave and deliberately deceive people. My testimony is that honesty, goodness and kindness will be at the end rewarded if not by people certainly by God'.*

Abdullah's misfortune was a particular one. He was deliberately swindled. But any delay in payment [let alone non payment] can cause a significant drop in profit margin and, as other cases show, this makes cash flow problems widespread.

Working to low capacity due to a lack of demand in the market and scarcity of working capital which makes small firms vulnerable to market fluctuations are important obstacles that small employers face. Although informal agreement makes legal and formal procedures more practical at times, it is these agreements that cause grave problems. Of course, not all the agreements fail to constitute adequate conditions for subcontract work in OSTIM. The majority of the payments are eventually made. The problem is the high rate of inflation [as indicated running around 60 to 70 per cent in the



last 10 years]. Any delay can cause a significant drop in the profit margin. As one of the small employers put it:

if you try to keep the profit margin high, you cannot get subcontract work because so many people are already making offers lower than you. If you want to increase the profit margin by reducing the wages of workers and prolonging working hours, it is impossible because their wages are, to be honest, already too low and they work 12 hours a day 6 days a week. You cannot argue that they do more for you, can you?

Ultimately, the market is controlled by larger firms which are located outside OSTIM. This fact dominates the operation of the whole estate. Subcontract work is mainly obtained through bids at auction. As shall be explained later, only larger firms find it easy to gain access to auctions. Smaller firms have to accept the offers of larger contractor firms through a second subcontracting agreement. In a chain of subcontracting relations, larger firms can increase the profit margin by sub-subcontracting to smaller firms. It is small firms that have to rely on subcontract works from those larger firms. As a result, the strength of larger firms on price setting makes small firms subject to the conditions of agreement laid down by large firms.

### 3. Subcontracting

The terms of subcontracting is one of the factors which shapes the relationship between large and small firms. In the literature, it is the nature of this relationship that has been predominantly discussed. The form of subcontracting relationship varies in accordance with a given specific region or economy. In the developed world, in Japan for example, some small subcontracting firms that work with export oriented large firms have been able to accumulate sufficient capital to enable the small firms to grow (Wattanabe 1978). Contrary to the Japanese experience, in such cases as the Philippines (Hill 1985), and Turkey (Cinar *et al* 1988:299 and Evcimen *et al*: 1991:145), the growth potential of small scale subcontracting firms as opposed to non subcontracting firms has not been confirmed. In the Turkish case, recent studies (Cinar *et al* 1988 and Evcimen *et al*: 1991), that were based on fieldwork in textile and metal working small firms in Bursa

and Istanbul, the correlation between the growth of small firms and the amount of subcontracting done for large firms was not confirmed.

Unfortunately, there has been no study on the subcontracting relationship between various firms in Ankara which has precluded the making of any comparison of Ankara with Istanbul and Bursa. My aim is to make a contribution to the current literature on the subcontracting relations that is based on the sample of OSTIM in Ankara.

In OSTIM, a significant proportion of small firms' economic activities are in subcontracting work. Only a small number of small firms work directly to customer demand. A great majority of small firms' activities are involved with subcontract work from larger firms. It might be the case that, until the heavy industrialisation period of the 1950s and 1960s, small firms centred on demand of the local markets by producing a varied range of consumer goods, since a large section of population could only satisfy their demand through the local market. But, after Turkey began to establish heavy industrial plants and was able to produce a wide range of consumer durable goods, the demand for the products of the small firms declined, while there was a sharp increase in demand for the mass produced goods of large firms. Since then, the structure of market demand has moved from products of consumer goods for customised demands to producing intermediate goods for large firms.

However, it does not necessarily mean that all small firms work on the basis of the subcontracting for large firms. There are also a number of small firms which still concentrate on local market demand for various consumer goods. Whatever the outcomes of the process of subcontracting relationship between large and small firms, a certain but limited part of the market is likely to remain available to some local market based small firms as some goods for market demand cannot be mass-produced.

The industrial estate of OSTIM is located 10 miles out to the west of Ankara. Markets for small firms in the estate are not limited to Ankara and its surroundings. In fact, 61 per cent of small employers said that they often sell or are subcontracted to firms



all over Turkey. This figure is 75 per cent among small employers with urban origin. However, except for two small employers who were able once to reach an international market by subcontracting, none of them was able to gain a direct access to international markets. This can be partly explained by the remoteness of Ankara to major international markets and transportation difficulties. In this, we can see the major differences between Ankara and Istanbul in terms of the concentration of firms for different markets. Although various firms in Istanbul focus on the internal market, the firms in Ankara are more dependent on the internal market as almost all firms in OSTIM are concentrated on that market demand.

Until the 1980s, the economic structure of Ankara unlike Istanbul, was dominated by state owned economic enterprises such as in Kirikkale [nearby Ankara], state owned Arms and Ammunitions Plants, state-owned machinery and chemical plants, agricultural tractor factory, cement factory and recently established F 16 military aircraft factory. After 1980s, along with fast urbanisation, a number of mass housing projects were carried out by large state owned and private firms. Since then, the state-owned economic enterprise has dominated the market for various goods and services. There are a number of subcontracting relationship between large private firms and state owned economic enterprises which results in relations with private large firms and small firms. Given the presence of inter-relations among small firms on the basis of subcontracting, the relationship between firms is dominated by subcontract work between large and small firms in OSTIM.

**Table 2.4**  
**To Whom is Your Firm Subcontracted? n=100**

Large firms only	57 %
Small firms only	5 %
Miscellaneous	38 %



As can be seen from Table 2.4, the predominant subcontracting relationship is between large and small firms at OSTIM. Of small employers 57 per cent reported doing subcontract work for larger employers; 38 per cent reported doing subcontract work for a mixture of larger and other small firms; only 5 per cent reported exclusively subcontracting for other small firms.

Vertical subcontracting relations between various firms often come about as soon as a fairly large firm, whether public or private, announces a tender for subcontracting work. Various firms prepare themselves for bidding at auction. Given that the contract is not big enough to attract large established firms from Istanbul or the international market, various medium sized firms will bid at auction, smaller firms being mostly precluded because of their limited resources. A firm which has made a successful bid will probably undertake major parts of the work itself and subcontract other work to smaller firms in order to take advantage of either their cheap labour or sometimes their specialised technology or know how.

Small employers regard medium size engineering firms as large firms, and generally concede these firms technical and engineering superiority. Notwithstanding this, small employers who employ 7-10 workers and have a better educational and technical qualification, complain about the unfairness and inequity of rules and conditions. One of the major concerns of small employers with urban origins and better educational level, is getting subcontract work from state owned firms since the system is riddled with corruption and bribery. It is almost impossible to get subcontract work from state-owned firms, despite making a decent offer at a fairly low rate.

One way or another, when a medium size engineering firm wins a contract, major units of the work are processed and completed in this parent firm, and some components are subcontracted to smaller firms in order to use the advantage of the small subcontractor firm's specialised technology and cheap labour. By re-subcontracting, medium size engineering firms economise on the use of capital and labour and this means that medium size engineering firms can prevent their own labour force from being

unionised. When a small firm gets subcontracted work from those engineering firms with a lower profit margin [as engineering firms exploit competition among small firms in OSTIM to reduce the cost of re-subcontract work] the only option for small firms is to squeeze their own labour force, extend the working hours and reduce the real wages to increase the profit margin. In this context, various types of subcontract work result in an insecure and a low pay environment for workers with long working hours and a low rate of capital accumulation for small employers. But the effects of these subcontracting relations vary with size of small firms.

**Table 2.5**

**From Whom do You usually Get Subcontract work? n=100**

From first dealers	5%
From first & second dealers	33%
From second dealers	22%
From second & third dealers	25%
From third & more dealers	15%

As can be clearly seen from Table 2.5, apart from those who are usually subcontracted to the first dealers, in other words directly to contractor firms outside the estate, 95 per cent of small firms in OSTIM work on the bases of re-subcontracted works of subcontractor firms. In OSTIM, as a large number of small firms fail to win subcontract work directly from the contractor firms, subcontracting relations vertically take place among various firms. Working on the basis of subcontracting work from the second dealer is more widespread in OSTIM. The profit margin, needless to say, drops as the sequence of subcontract work from dealers is handed over from one subcontractor firm to another. As explained earlier, the first subcontractor firm which is a medium size engineering firm (the size of those firms are not necessarily defined by the number of workers employed but instead by the use of advanced technology, relatively skilled engineering labour force and firms’ working capital) completes the major components of



subcontract work by itself. That engineering firm re-subcontracts certain items to smaller firms if they are a specialised small subcontractor firm with a superior know-how in the production of a particular item. In addition to this, where there is a heavy demand for certain items smaller firms are sub-contracted to do jobs for the engineering firm. Last but by no means least, subcontracting enables engineering firms to withstand market fluctuations since subcontracting allows these firms to be buffered from changes in market demands.

The role and the position of small firms in this context are increasingly subject not only to the engineering firm's organisational choices in subcontracting certain tasks, but also to fluctuations in the subcontracting market. It is usually small firms which suffer big losses when there is a decline in the amount of subcontract work in the market. When there is a decrease in the amount of subcontract work, small firms desperately begin to compete with each other to win re-subcontracted work from an engineering firm although it is known among all the small employers that extreme competition in the market favours the engineering firms.

There are a number of small firms who attempt to break the barrier against access to subcontract work. Despite the financial and technological weakness and smallness in size, those who employ between 7-10 workers and have a better educational background attempt to win a subcontractor work directly from the contractor firms.

I came across a case during my field work in OSTIM which well illustrates the extent of small firms' capacity to cope with the difficulties which result from subcontracting. This case is based on a collaboration of two firms which were trying to get an order from the first contractor firm. It indicates the difficulties that many small firms face in getting bids. As will be seen below, the basic problems that prevented these small firms from expanding continue to constrain the growth of business activities even when small firms manage to get orders. This is because, there are certain market conditions which remain unchanged and determine the environment in which small firms have to operate.



## b) Case Two (Mustafa)

*'In the winter of 1988, a friend of mine came to ask me about a bid due to take place in two weeks time. In those days, my shop was not working to full capacity. I was also desperately looking for a job to do. He said "if we collaborate to get this bid, we could make a lot of money" The bid that he was talking about was not very attractive for bigger companies, because it was not a big fish that could leave enough profit for bigger companies. Also, according to the bid, subcontract work was to be partly done in a shop and then finished on a building estate where thousands of new houses were being built by medium to big construction companies. Therefore, it was not the kind of work that a big company could easily take, as they could not do jobbing work.*

*He said that there were a few medium sized companies interested in getting the bid. According to him, "if we co-operated, we would also have the same chance to get the bid". He claimed that both of us had sufficient equipment and enough workers<sup>1</sup> to complete the job. He said that at the auction, "if we made an offer for the bid that could leave around 10 per cent profit, we could beat the other firms there<sup>2</sup>". But as you know, 10 per cent profit margin is nothing, therefore I told him that it could be very risky if we failed to do the job as we planned. He claimed that there were several factors that we could utilise to increase the profit margin further to 20 per cent. He said that none of us was working to full capacity. If we worked to full capacity and utilised all the equipment as much as possible, we could increase the rate of profit. In addition, he said we could work overtime all days until 8 or 9 pm including weekends and so could the workers, and we could again increase the profit margin this way. Anyway, in the end, he convinced me.*

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<sup>1</sup> He employed seven, whilst the other man who made the offer employed eight workers.

<sup>2</sup> At auction, conventionally, the majority of firms make an offer that usually leaves around 15 to 35 per cent of profit margin.

*Things went well, until we got the contract. As we planned, we made the lowest offer and beat the others from getting it<sup>3</sup>.*

*According to the contract, the job was to be done in seven months time. The company that gave the bid, was an construction company at Batikent<sup>4</sup> where they planned to build seven dozens new houses. The work that we were subcontracted to do, was to do with metal construction for these houses such as metal window frames, stair railings, balcony balustrades, metal bed frames, metal doors, metal garden doors and metal garden railings.*

*The subcontractor company gave 30 per cent of total cash in advance, and they said, as it was in agreement, the rest of the payment would be made according to when we complete certain parts of the work. In seven months, if we completed the work in time, we would get the money that we agreed with the subcontractor firm at auction.*

*After we started doing subcontract job, many things which we had not predicted, happened. The first one was the increases in the price of raw materials. As you know, it is always the government that decides the prices of basic raw materials as they are state monopolies and produced by state companies. Would you believe it? the government increased the price of all metal raw materials twice in two weeks time<sup>5</sup>. It had never happened before and I have been in this business for more than 18 years. Although we expected some increases in the price of raw materials, it was not as high as this<sup>6</sup>. Therefore, this excessive price increase of raw materials right at the beginning wiped out the 10 per cent profit. What could we do? Once you signed the contract, you've got to finish it.*

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<sup>3</sup> At auction, offers are always made confidentially to the contractor company which decides to give the bids accordingly.

<sup>4</sup> Batikent is a new district of Ankara where one of the world's biggest mass housing project is being carried out by many medium to big construction companies. It is planned to house 400,000 people by the end of 1990s.

<sup>5</sup> As mentioned earlier on, the rate of inflation has been around 50 to 70 per cent for the last decade. It was 67 per cent in 1993.

<sup>6</sup> He said to me that unluckily, the first price increase of raw materials was announced by government the day after they got the bids the second one was declared day after they bought one third of total raw materials.



*Things just went from bad to worse for us. Without any choice, we had to continue to work gratis for the subcontractor firm. Two months later, we asked the subcontractor firm to pay some more money to us in advance of the actual second payment that was supposed to be given in the sixth month. They said: 'no'. We explained the situation to them that we were not even able to pay the wages to workers let alone buy the rest of the raw materials. We said we were not going to complete the job in time otherwise. A manager there said to us "it is not our problem, is it?". He said that our request "has nothing to do with contract, just do what contract says". Unfortunately this bloody man was right. You see there is no pity and compassion around here. Once you fail to achieve things, that is it. You can ruin everything you had dedicated yourself to build.*

*I said to my employees, "look, this is the situation, that is why I am not in a financial situation to give your wages. But I promise I will give as soon as I can". They did not accept, except one of them who was an apprentice. I said "please help me to help you". You know, also they had no better choices of going elsewhere, as others could not offer anything better than us.*

*Anyway, at the end, they accepted to work but on condition that half the wages would be paid for two months and then they would be paid normal wages, along with their back pay. You know, they are idiots. They never understand that I run this business not just for myself but also for themselves as well.*

*On the other hand, the partner also faced with the same problem there and that slowed the speed of completing the subcontract work. In the fifth month, a manager from the subcontractor company frequently asked us to finish the agreed part of the work in time. We were working hard to do job as planned but in fact we were far behind. Furthermore, the financial difficulties were getting worse and worse. The partner sold his car to continue to fight more, and then I also decided to sell my car. But in the sixth month, we could not finish the job that we should have done according to contract. The subcontract company was repeatedly forcing us to do something about it. They said that if we failed to complete the job in time, they would definitely take legal action against us.*

*There was worse to come. One of the most important lathes belonging to my partner, broke down. What timing that was! He said to me that repairing it could take too much time and money, therefore he was going to re-subcontract some part of the work to smaller companies. But he could not find anyone to do the job. He said that everybody was saying that it was not profitable. Then you know what happened? He offered the work to someone at a price which meant that he was losing money while the job was being done.*

*Meanwhile, I was spending my personal savings and selling my wife's golden jewellery. But he had spent his last penny and got nothing to spend. He came to me and said that he had two choices. Either he gave up completing the rest of the work or he borrowed a certain amount of money from a usurer<sup>7</sup>. As you know, if we did not complete the job they would take legal action which could easily harm my business as well. I did not accept the first choice (giving up the job) but also did not recommend the second. He said that he had to try for the second one. According to him, that was only way to complete the job, otherwise he was not going to do the rest of the subcontract work.*

*You know once you give your hand to usurers, you cannot rescue your arm. This is what happened to him. At the end, we completed the job but he could not wipe out his debt. Once you cannot repay, the usurers always put a further monthly interest on the basic amount even if you make a 12 hour delay in the actual time of repayment.*

*In order to repay, he began to sell his equipment. But he was still heavily in debt. Finally, he said that he had to close the shop and to sell everything to wipe out the debt. He did so, but he lost everything that he had sweated to create in 15 years. He swore he would never set up a small business again. But it was too late, you know.*

*I recently heard that he set up a metal working small business again elsewhere in Ankara. I really wonder where he got the money to start again.*

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<sup>7</sup> Usurers always give money at an interest of around 15 to 30 per cent more than a bank does but require no security from the borrower, while a bank always asks for this.



*That deal damaged my business badly. Luckily, I had more savings and capital than he had and therefore, I continued to run this business. But it took more than a year to recover. I reduced the numbers of workers from 7 to 2. Now, I again employ around 6 or 7 workers. I am doing all right at the moment. But I wasted, let's say my 2 years for this risky bid. I know that I have learnt a very good lesson. That is why, I always say that "If you can't see the bottom, keep out of the water" [dibi görünmeyen suya girilmez].*

As this case shows, for small firms to get access to subcontract work from a first dealer is not an easy task. Even though the conditions laid down by the contractor firm, are sometimes complied with by a small proportion of small firms in obtaining the contract work, problems of the lack of working capital, insufficient technology and lack of skilled labour force prevent small firms overcoming the difficulties involved in subcontracting. Case 2 shows that, although two small firms which represent successful establishments with 7-10 workers, collaborated to combine their resources to get subcontract work from the first dealer, they failed to gain expected profit from the subcontract work and greatly curtailed the prospects of their firms. It is of course plainly a result of a very low offer that was lower than the market rate.

In OSTIM, a very large proportion of small firms work on the basis of subcontract work from the second and third dealers, and as will be explored later on, only a few small firms work on the basis of subcontracting directly from the first dealers. Small firms that work on the basis of subcontracting work from the second or third dealers, give the lack of demand in the market as the main reason for doing this. It is these subcontracting relations that cause severe financial difficulties to these small firms as they are trapped into payment problems by contractor firms.

The case of Ilyas illustrates the financial difficulties in the context of subcontracting relations between large and small firms.

### c) Case Three (Ilyas)

*'I have been in this business for more than 20 years. Seven years have passed since I set up my own business. I have experienced a lot of difficulties and there have always been money worries to harm us. It is all about money, nothing else.*

*So far, for instance, a few people for whom I worked, have not paid off the money that should have been paid off a long time ago. What can I do? It is happening all the time whether you like it or not. If you are determined to say, "please I want the money right now", you know what will happen then? You will lose customers. Because they are the ones who offer subcontract work to you. But the last time, instead of being polite to them, I tried to change my attitude and to be very determined and clear about my intention to get the money. That gave rise to an unprecedented dispute between me and subcontractor firms. At the end, it was me who suffered as if I was in the wrong. A serious financial dispute took place recently between me and one of the subcontractor companies.*

*I was working for a long time for a construction company making metal decorating works for various newly built mass produced houses in Batikent in Ankara. They always gave me subcontract works because they knew me very well. I always did my best to complete the job in time. As far as the quality of the work was concerned, I was the best among other companies that also worked for them. Having said that, financial problems unavoidably occurred between us and caused a lot of trouble for me. The problem was not me because I was working very well I suppose. The problem was their attitude, in delaying the payments all the time.*

*They gave me a subcontract work to complete in five months. The subcontract work was about a couple of hundred metal window frames. I was given one third of total payment in advance. Firstly, I bought half of the raw materials and then started doing the job. When I finished that stage, I had a right to ask for more payment according to contract. But it never worked like that. When I asked for money, they said "well Mr. Ilyas*



*Usta, unfortunately we are actually not in a position to pay you now, please come sometime next week". I not only went there week after week, but also made several phone calls and even sent my journeyman to ask for more money, either they wanted me to come the following week or paid less money than I was asking for.*

*It went on just like that until I completed the subcontract work. I was only able to get two third of the payments. I failed to get the rest of it. There is no way you can force them to pay. Your arms are tied, you see. They know that I need them to get some subcontract work anyway.*

*Eventually, I lost my temper and I had a very serious discussion with them. I said that this time I was very determined to get the rest of the money. Initially, like always, they did not want to take the situation seriously and one of the managers said to me "keep calm Ilyas Usta, there is no need to lose your temper, you know. If we promise to give the money, we will do it anyway, believe us, please just give us a little bit of time to consolidate our financial situation. We cannot get paid either. We have got a payment problem with you but it is not solely our fault, what can we do?". You know, it is the same story all the time. I have just got fed up with these sort of excuses. I did not simply accept their excuse and said "please just give me the money, do not force me to take legal action". With this they got very angry. They threatened to tell other construction companies to stop giving any subcontract work to me.*

*I know that they have got enough money, but they just do not want to pay it to me. They think that this money will be wasted, if they pay. At the estate, people never think of the situation of others. They just selfishly concentrate on themselves. Believe me, when I owe money to somebody, I can not sleep a moment till I pay off the debts as quick as possible. But most people are never like that, once they get the money from you, they just don't care about you any more, whether you need money tomorrow or not.*

*After this incident, I haven't had enough subcontract work from construction companies. They told them not to give it to me, I think. I made a few phone calls to ask*

*the other construction companies the reason why I do not get subcontract work anymore. They told me that they don't get enough bids because of the recession in the construction business. They may be partly right but I think the main reason is this company that requested other companies to do so.*

*I never regret what I did it, but I am very sorry that they influenced the other companies which used to give subcontract work to me. They are stronger than I am, I know that. As far as they are concerned, I am dispensable, because there are so many small companies around to give subcontract works. On the other hand, from my point of view, they are unfortunately essential to me if I am to get subcontract work. I think, it was me who was the loser, although I was right. But on the other hand, I am happy not to let them crush my pride'.*

As cases 2 and 3 show, the financial relations that small firms are subordinated to, are due to their actual market position in OSTIM. In this context, small firms become financially vulnerable to the fluctuations in demand and delay in payments.

Where subcontracting demands high technical skills and technological capacity from small firms, technical and technological assistance from large firms to small firms is made in various aspects such as designs, technical advice, providing equipment, helping small firms to get credits from banks and sending some technicians for quality control and improvement. Even some small firms are provided with raw materials and the agreement of subcontracting is plainly based on utilisation of small firms' labour power. In this context, bargaining power of small firms is weakened, especially when small firms work for a single large contractor firm.

In OSTIM, the form of subcontracting notably varies according to small firms' life span, small employers' background and the size of small firms.



**Table 2.6**

**The Age of Small Employers' Business and the Number of Dealers from whom They Get Bids.**

**A= Employers 1-4 years in business, n= 26**

**B= Employers with 5-10 years in business, n= 33**

**C= Employers with more than 10 years in business. n= 41**

	A	B	C
From first and second dealers n=60	50%	58%	68%
From third and more dealers n=40	50%	42%	32%

Small firms with less business experience get subcontract works mainly from the second and third dealers. This indicates that, at the beginning, new small firms in OSTIM have failed to break the barrier that stops them from getting the subcontract work from first subcontractor. However, more work experience eventually enhances the substantial proportion of small firms' capacity to improve these conditions.

All in all, as discussed in Chapter One, there are certain conditions in the labour market that push individuals into the world of the small scale economic activities. They are actually those who are not well-educated and do not acquire any skills from any formal institutions. They are relatively unsuccessful in expanding the size of business and in improving the profit margin. It is those who are well-educated and have gained technical skills or qualifications, who are more successful not only in withstanding difficulties in the market but also in going beyond the limits that many small firms fail to cross. Accordingly, it is the well-educated small employers who are capable of maintaining the profit margin at a reasonable level because they get subcontract work either from the contractors or second dealers, and hence have the resources to expand the size of the firm.

It is the small employers with less educational background who work under a more hostile environment and who survive rather than prosper. This is partly because the

lack of education is an obstacle in coping with the production process on the shop floor which needs varied technical skills and managerial knowledge as well as initiative to take advantage of opportunities in the market. In this respect, a small employer is expected to have the understanding of certain things in the business such as technical and practical knowledge, adequate managerial skills, entrepreneurial ability, a high level of commitment to achievement, a dedication for innovation and aspiration for expanding the firm's size.

Several factors can be used to analyse the small firms by dividing them into certain groups. The first but foremost factor was the level of small employer's education. The second important factor which is mainly the consequence of the former one, is the size of the firm.

**Table 2.7**

**The Relationship Between Sub-subcontracting work undertaken and the Size of the Firms.**

A= Small firms; 1-3 workers employed, n= 20

B= Small firms; 4-6 workers employed, n= 46

C= Small firms; 7-10 workers employed n= 34.

	From first & second dealers n= 60	From third dealers or more n= 40
A	25%	75%
B	48%	52%
C	91%	9%

From Table 2.7, the effect of the size of the firms upon the character of subcontract work undertaken is clear: small firms, which employ 1-3 workers, work on the basis of sub-subcontracting mainly from the second and third dealers; firms that employ 4-6 workers do relatively better than small firms in getting access to



subcontracting; however, 91 per cent of small firms that employ 7-10 workers, mainly concentrate on subcontracting from the first or second dealers.

On the other hand, analyses of small firms cannot only be related to the firm's position in getting subcontract work. As I have tried to explore, it is also associated with the small employers' background such as education level and place of origin. As indicated in Chapter One, small employers from urban origins are relatively better educated than those from rural origins as 83 per cent of them have an education which is either secondary level or university level. On the other hand 72 per cent of small employers who were born in the rural areas, have only primary school education.

In fact, the small firms with 7-10 workers, who are owned by those who have better educational qualifications, and who are from urban areas, have better access to subcontract works either directly from the contractor firms or second dealers. In contrast to this, very small firms with 1-3 workers, owned by those of rural origins, who lack educational qualifications, get subcontract work mostly from the second and third dealers.

While I was doing my interview, I observed several times that a manager who is also an engineer from the parent engineering firm, occasionally came and checked the subcontract work being processed in smaller firms and whether it was being produced according to the engineering firm's quality standards. When the manager from the engineering firm is not satisfied with the quality of the production of the subcontract work, he is entitled not only to criticise but also to ask small firms to re-do certain items. When I discussed a number of issues with several medium size engineering firms the main problem with subcontracting from their point of view, was the lack of quality. As one of the engineering firm's owners said to me about some of items produced by smaller firms;

have a look at the quality of these things [metal bed and window frames], I am not satisfied at all. They do not fulfil tasks in a quality they promised in the agreement. I paid too much money to them to do these. What shall I say to the contractor firm if they do not like these items at all?. How could I expect them to give me more contract work? These smaller firms will suffer more than me anyway if I cannot get any subcontract work.

As is clear, although production of the subcontract works in the smaller firms shop floor is partly under the control of the engineering firms, the production process in the small firms is not completely being supervised by engineering firm. This is partly due to the number of small firms that engineering firms have got subcontracting relations with. In this context, it is not only a time wasting process to send managers or engineers to control the things there, but also a case of wasting a highly skilled labour force in not keeping them on the parent firm's shop floor. Of course, in this process, in the absence of engineering firm's manager-engineer, there is the independence that small employers enjoy as they can concentrate on increasing in the profit margin at the expense of quality of the products.

There are various conditions of the subcontracting relations that leave small firms with a low profit margin such as delay in payments, high rate of inflation, a difficulty in gaining access to bids, access to raw material and high taxation. In this hostile environment, small firms are financially pushed so that a decline in the quality of subcontract goods in small firms is not only due to a lack of a skilled labour force there, but also chiefly a result of subcontracting. As stated by Kaytaz 'the attainment of the required level of quality is a problem for both sides of the subcontracting relation' (Kaytaz 1990:67). The issue of skimping raw materials which reduces the quality and causes disputes for both sides, will be more specifically examined later on in this chapter.

In the next section, I will try to examine the different ways small firms have access to raw materials and the extent to which the way that raw materials are used in the



production process relates to different aspects of the small firm's economic activities in the market.

#### **4. Difficulties of Access to Raw Materials**

Lack of access to raw materials has been considered in the literature as one of the major constraints on the growth of small firms (Schimtz 1982a, Sethuraman 1976, Staley and Morse 1965). There are a number of difficulties associated with raw materials that small firms face in the market. In OSTIM, the biggest difficulty that they experience is the lack of working capital to purchase raw materials. Small firms in OSTIM purchase, at a price, a very small amount of raw materials from wholesale or retail raw material suppliers which are near the estate. There is a high degree of exploitation of small employers by raw material suppliers who operate as intermediaries between small firms and state owned large scale raw materials enterprises. The position of small firms in having access to raw materials is similar to that of access to subcontracting work. Here again, a very large number of small employers are unable to obtain raw materials directly from the first material suppliers who are mainly state owned enterprises.

The process of purchasing raw materials takes place in OSTIM as follows. There are several state owned iron and steel plants across the country and none of them is actually close enough to Ankara. The major iron and steel plants are very large, especially those of Karabük and Ereğli Steel and Iron Plant in Zonguldak province and Iskenderun Iron and Steel Plant in Hatay which are major raw material suppliers to the whole industry [see Figure 1 in Chapter One]. These plants mainly process crude steel and pig iron into semi-finished iron and metal sheets. These semi-finished metal products are supplied as an input to the industrial sector in general and the iron and steel industry in particular. But the raw materials supplied to the market are in large quantities and hence they are mainly purchased by wholesalers from various regions of the country. Small firms are by no means capable of purchasing raw materials from state producers.

Apart from anything else, small employers are not in a position to tackle the transportation expenses for small amount of raw materials, as the steel and iron plants are relatively far from Ankara.

It is the wholesalers who purchase raw materials directly from the iron and steel plants and then sell it either directly to various sizes of firms in a given local market or to the semi-wholesalers. Nevertheless, a number of small firms still cannot afford to buy raw materials from the second dealers because the wholesalers, as a matter of principle, want cash in advance of delivery time. As indicated, because of lack of working capital, small firms are unable to pay the total in cash at the time of buying raw materials, as they need the money for other indispensable expenses and fixed costs such as rent, electricity, telephone, workers wages, tax and insurance. Therefore, the majority of small firms in OSTIM tend to buy a quarter or one third of the raw materials and endeavour to pay the cost in instalments.

As explained earlier, wholesalers are not interested in selling raw materials in small quantity. They usually prefer to get the total payments at the time of purchase. On the other hand, there are a number of semi-wholesalers and retailers near OSTIM, who do not require total payment in advance and who also sell in smaller quantity. These raw materials dealers in the OSTIM vicinity offer raw materials in small quantities and allow small firms to pay off the payment in instalments. But a certain amount of the payment was always to be made in cash. Because of a high rate of inflation and an increase in the price of raw materials, payments of instalments by small firms to those raw material suppliers is either based on the exchange rate of US Dollars or German Marks. In this circumstance, a delay in the payment does not harm the raw material suppliers but the small firms. A delay in the payment not only halves the profit margin, but can cause a big loss to small firms. Therefore, small employers are very keen to get more than one third of the payment in advance from customers or subcontractor firms so that they can buy more raw materials.



The crucial issue for small firms is to have the financial capacity to buy all raw materials at one time in order to prevent further losses in the profit margin caused by high inflation and frequent devaluation of the Turkish Lira. Even in times of financial difficulties, economic solidarity among relatives and close friends is mainly based on lending and borrowing of foreign currencies and none of them accepts the Turkish Lira.

In addition, there is a large mark up by the dealers and therefore raw materials are bought expensively by small employers. These means that the loss for the small firms is impossible to avoid as neither themselves nor their small employers' associations have gained a successful access to make a purchase directly from the first dealers. The extent to which small employers' associations have failed to solve the basic problems of their members such as financial difficulties and how lack of access to raw materials damages the small firms, is an important issue to explore. I will deal with the issue of failure and success of small employers' associations later in this study.

As mentioned earlier with reference to subcontracting, there are particular small firms that suffer worse than the others and there are those who are less affected by the lack of access to raw materials.

**Table 2.8**

**Do you have Financial Difficulties in getting Raw Materials? n=100**

Yes	92%
No	8%

**Table 2.9**

**Do you have Difficulties of Scarcity of Raw Materials? n=100**

Yes	4%
No	96%

According to Table 2.8, of small employers 92 per cent face serious financial difficulties in purchasing raw materials. On the other hand, almost all of them have no difficulty concerning scarcity of raw materials. That means, as far as the small employers in OSTIM are concerned, the biggest problem is not the scarcity of raw materials but actually purchasing them. In Bursa, unlike OSTIM, Dikerdem (1980) found during his fieldwork in the late 1970s that one of the main problems that small firms faced was the scarcity of raw materials. This was mainly because of the policy of import substitution which strictly limited the import of a number of goods and raw materials.

Until the late 1970s, despite the fact that internal market demand for raw materials was not sufficiently met by domestic suppliers, imports were not increased and thus small firms suffered more in obtaining raw materials than actually buying them. Nevertheless, since the 1980s, with the opening of the Turkish economy to the international market, imports have been increasingly freed. In the market, even quality processed raw materials are available if demanded, but many small employers cannot afford to buy these raw materials as they are more expensive than standard ones.

When some small employers find it difficult to buy even standard raw materials, they buy recycled raw materials at a lower price from the recycled metal sheet dealers in the iron mongery bazaar near OSTIM. But as a result of the use of the recycled raw materials in the production process, the quality of products inevitably suffers. This use of raw materials causes serious problem in subcontracting relations. Thus, as a solution to this, one engineering firm's manager stated that in more important contract works

We prefer to provide raw materials to them to use a high quality raw material so that they could not reduce at least the quality of metal substances.

Small firms' access to raw materials is an essential part of their economic activities and thus it is important to examine the way they purchase raw materials and from whom they obtain them. In Table 2.10, the number of dealers from whom small



firms buy raw materials illustrates how various size of small firms differentiate in purchasing raw materials from suppliers.

As we can clearly see in Table 2.10 below, the majority of small firms with 1-3 workers are unable to buy raw materials directly from the first dealers. Most of the small firms with less than 7 workers mainly buy raw materials through second and third dealers as 65 and 75 per cent respectively.

**Table 2.10**  
**The Relationship Between the Size of Firms and the Sequence of the Raw Materials Dealers from whom They Purchase Raw Materials.**  
**From whom do you get raw materials? n= 100**  
A= Small firms with 1-3 workers, n= 20  
B= Small firms with 4-6 workers, n=4 6  
C= Small firms with 7-10 workers. n= 34

	From first & second dealers n=43	From third dealer & more n=57
A	25%	75%
B	35%	65%
C	68%	32%

As explained earlier, when raw materials go from one dealer to another, these intermediaries add their mark-up to the cost, so the raw material becomes more expensive. When a large section of small firms, as illustrated in Table 15, cannot reach the first and the second dealers, raw materials inevitably cost more to the firm than they have done. This is another constraining element on the capital accumulation and growth of small firms in OSTIM. However, the small firms with 7-10 workers, which tend to be owned by better-educated small employers, are more successful in obtaining raw materials from first and second dealers, just as was the case with subcontract work.

These important differences between firms in obtaining subcontract work and obtaining access to raw materials have a considerable impact on capital accumulation and in turn on their ability to make new investments for advanced machinery and lathes. The

issue of level of technological capability is vital in the case of subcontracting work. For instance, parent firms that give subcontract works prefer small firms with better equipment and technology with a skilled labour force. In addition, parent firms also enjoy the extent of competition among small firms at OSTIM.

In the next section, I will attempt to elaborate in what way and to what extent competition affects small firms in OSTIM.

## **5. Competition**

In OSTIM, being competitive is bound up with the size of a particular firm, the position of firms with regard to access to raw materials and subcontracting, the use and the amount of working capital, the consistency of quality in the production process, and the small employer's background.

At OSTIM, state policies on taxation and financial incentives, and also the black economy have an important impact on the competitiveness of small firms. Nevertheless, the extent to which the black economy influences and the way state policies impinge on small firms, are difficult to calculate.

The high level of competition in OSTIM is mainly due to the estate's location in Ankara. It is the biggest industrial estate in the country and consists of thousand of small factories and workshops in a single settlement. The majority of small firms in OSTIM work in metal manufacturing and this also increases the intensity of competition. Last but by no means least, unlike Istanbul, the market that the majority of small firms in OSTIM have access to, is restricted by the limit of the internal market.

The ease of entry to the world of small firms encourages new entrepreneurs, especially where there is a high possibility of obtaining profit. This is the case in certain sections of the metal industry. The result of the proliferation of new businesses is to increase the supply and push down the profit margin. Thus, even in profitable circumstances, the small firm's profitability is short lived, owing to new entrants.



The form of competition in OSTIM takes place, when almost all firms find the market that they have access to, is limited in many ways and that they cannot get a bigger slice of the subcontracting. It is especially true for the newly established firms who suffer most since their market share is almost nothing and is very difficult to increase. In addition, small firms with fewer than 7 workers and mainly owned by rural born employers with primary school education also experience the devastating market circumstances in OSTIM. As we already know they were those who had no easy access to raw materials and subcontracting work. In a similar vein, the impact of competition on these firms forces them to function in a very hostile, less profitable market environment.

New firms which usually start business without any workers and very little working capital, compete to get subcontract works from second and third dealers. However, a large proportion of small firms in OSTIM has already no easy access to subcontract work directly from the contractor firms. Competing to get subcontract work hence is speeded up by any new entry to business. New firms are those that are mainly set up by former journeyman. These new firms are desperate to get any work to survive and they are ready to accept offers lower than the market rate. Although intensive competition largely jeopardises new firms, as it is they who take more risk, the majority of the small firms managed to survive thanks to low wages, longer working hours, use of recycled raw materials, tax evasion and involvement to black economy especially when doing jobbing works [tacheron works].

Excessive competition harms small firms' growth. For example, there is always a low market rate for subcontract work and this is also partly created by the small firm itself. Large contractor firms or medium size engineering firms utilise the competition to reduce the cost of the sub-subcontract work in OSTIM. When a medium size engineering firm needs to re-subcontract the subcontract, it informally announces this to small firms in OSTIM. Sometimes, it sends one of its engineers or technicians to talk to a number of small firms that the engineering firm already knows.

A representative of the engineering firm makes the offer to all known small firms and asks them [small employers] how much they would bid for. After getting all the offers for subcontract work from the small firms, he visits them again by saying that ‘someone elsewhere offered this amount. if you accept just under the rate of this offer, I will give it to you’. This explains how engineering firms increase their benefits by exploiting the situation. The degree of competition intensifies in line with the size of small firms. The intensity of competition between smaller firms puts more pressure on firms and sometimes might easily harm their future.

In Table 2.11, the main competitors of small firms are well illustrated. It shows who competes with whom and how competition takes place between various sizes of firms in OSTIM.

**Table 2.11**  
**Who are Your Main Competitors? n=100**

Small firms	89%
Large firms	1%
Miscellaneous	6%
No competition	4%

According to Table 2.11 above, the major competitor of small firms is the small firm itself. Interestingly, almost all small employers do not consider large firms as their main opponents. However, it does not necessarily mean that there is no conflict between large and small firms. It indicates the fact that small firms in OSTIM do not regard themselves as competing with large firms to get subcontract work directly from the contractor firms. On the contrary, they accept the position in which large firms get orders directly from the contractor firms and offer some parts to small firms. For small firms the only way to get subcontract work is to beat other small firms in obtaining orders from second or at least third dealers.



Table 2.11 also indicates that the small firm is in competition with the small firm. It is reducing the market rate of subcontract work to a very low level and that is the main constraining force on the small firms' growth. Many small employers are aware of how the competition depresses profit margin, but there is no way that they can see to alleviate the intensity of competition in OSTIM. Of course, the role of the small employers' associations and related occupational organisations are essential for these tasks, but as will be explored later in this thesis, the small employers associations are not capable of dealing with these issues. Neither small employers associations nor their occupational organisations are strong enough to solve the problems, as small employers regard one another as a tough rival rather than an amicable member of small employer's association in a very hostile environment. It is actually small employers who found it difficult to unionise and get together in a competitive market.

It is important to note here that even though the increasing numbers of small industrial estates solve the problem of infrastructure for small industry, they cause an intense competition in a place where thousands of them are settled down and where access to the market is limited. In estates, despite different form of services available to small industry such as apprentices schools, quality improvement centres, health centres, and banks competition increases to such an extent that the negative effects of competition and the difficulties associated with this, such as access to subcontract works and the market, outweigh the positive effects on small firms. It is actually the large firms that benefit from the construction of small industrial estates since competition reduces the small firm's ability to set the price of a subcontract.

Table 2.12 given below demonstrates the impact of intensity of various kind of competition that occurs among them.

**Table 2.12**

**Type of Competition**

**(what kind of unfair competition do you usually face?) n=100**

Price discount by competitors	89
Competitors reduce quality	1
Price discount & reduction of quality	6
No competition	4

In OSTIM, almost all small employers consider the price discounts of their rivals as the most negative factor in competition. According to Table 2.12, 89 per cent of small firms complained about unfairness of the large price discounts by their rivals. Although almost all small employers expressed price discounts by competitors as being the most important part of competition in OSTIM, small employers who owned relatively bigger firms described the reduction of quality along with price discounts also as an important side of competition. Nevertheless, the competition mainly was based on price discounts in OSTIM.

For much smaller firms, the main problem is getting subcontract work. Once it is obtained, the main task is then to increase the profit margin. Here we again see a factor that small employers can benefit from, which is the extent of the use of raw materials in the production process. Small employers try to use as little raw materials as possible in order to reduce their costs. Of course, the way small firms use less raw materials in products can not be easily noticed as they become experts in disguising the extent to which the amount of raw materials is used. For example, let's assume a small firm has just obtained subcontract work for metal window frames, metal doors and balcony balustrades, and the small employer wants to use less raw materials than according to contract in order to gain something for himself. The thickness of sheet metal that he buys from a dealer let's say, must be 3.5 cm. What he does is simply to use 3.2 or 3.1 cm thick metal sheet in processing of items. It then gives rise to a decline in the quality of



products. In OSTIM, this is one of the major sources of disputes between large and small firms in subcontracting relations, along with delays in payment.

A dramatic reduction in quality and a low profit margin from subcontract work are mainly a consequence of intensive competition in the market. It is the impact of the competition that forces small firms to do so. It is also the negative effect of competition that prevents small firms from growing.

## **6. Conclusion**

Cash flow, the subcontracting system and raw materials prices are problems that are experienced by all small employers at OSTIM. As the above accounts make clear these problems are often interconnected ones. But OSTIM's small employers are not affected to the same degree. It is the urban born and predominantly better educated employers who are likely to run larger small firms (7-10 employees) with better access to subcontract work and raw materials. Whereas, it is the rural born and generally less educated employers who run the smallest of small establishments [1-3 employees] and have a great difficulty in gaining easy access to subcontract work and raw materials. As a result, competition is widespread in OSTIM.

The larger and medium capitals outside the estate are the beneficiaries of the competition inside. Closer examination of the contractual chain which links OSTIM to the medium and larger capital outside the estate reveals clear differences inside the estate between large and small employers. As we have seen, smallest of the small employers at OSTIM are much less likely to get contracts from second dealers than the largest ones are. The larger establishments at OSTIM are similarly at an advantage when it comes to the purchase of raw materials.

The smallest employers on the estate not only inhabit a region in which the formal and informal economies intersect; they also inhabit a place in the class structure which

can have a great deal in common with manual wage workers. Some of the better educated small employers at OSTIM, who have urban and sometimes middle class origins look for success and are rewarded with prosperity. The poorly educated rural migrants are very often faced with an uphill struggle for survival. It is the employers from rural origins, with their lower level of formal education and typically with less technical and managerial resources, who are the ones who are lodged at the bottom end of both the contract and the raw materials supply chain.

The main restriction facing small firms is not the position of small firms in the market itself but the way small employers are unable to solve these common problems. Small employers' dispersed economic activities force them to compete with each other, and this limits the small firms' ability to unify and fight to solve or at least alleviate their common problems through public-private institutions and/or various kinds of small employers' associations. In the recent literature it is argued that small firms can sometimes successfully withstand difficulties by means of small employers' associations. These institutions, it is claimed, can enhance co-operation and collaboration among small firms for various purposes such as technical assistance, innovation, clustering of small firms for *flexible production* and their potential to make an impact on policy making as a strong interest group to have benefit from the application of various state policy and so on.

In the next chapter, I will examine two main issues regarding the social relations in which small employers make their living and the way they get together to withstand the market related difficulties in terms of occupational organisations and associations. The first one deals with the relevance of the thesis of flexible specialisation with special reference to OSTIM. In this respect, the level of skill, technology and institutional structure of small firms associated with flexible specialisation and idea which has figured widely in recent discussions of small manufacturing establishment in the advanced and less advanced countries, will be closely examined at OSTIM context. Secondly, I will assess the roles of various state institutions for supporting small scale economic activities



and small employers' associations and occupational organisations, both in Turkey in general, and in OSTIM in particular, in overcoming common problems. In this context, I will examine the extent of the success and failure of these associations in responding to small firms' difficulties in the market.

# **CHAPTER 3**

## **Small Firm Flexibility and its Relevance to the Turkish Case**

### **3.1 Introduction**

Market economies have experienced major structural changes at micro and macro level since the beginning of the economic crisis in the 1970s. Debates on the nature of these structural changes in the industrial production system have intensified as well as the contention that capitalism has advanced a new model of industrial development since the 1970s.

The main debates are on the economic transformation of the industrial production process in advanced economies. In the context of prolonging economic crisis some commentators argue that the current crisis of advanced economies is a function of the limits of the Fordist mass production model of industrial development. It is asserted that this should be replaced by a new model of industrial development in order to prevent the present difficulties in the industrial production process. Other authors claim that this transformation is a new process of capital accumulation to the cost of labour. A third perspective holds that no real shift has taken place.

In this chapter, the debates on capitalist industrial development will be briefly discussed. In light of these debates, a new perspective will be presented to assess the relevance of the thesis of flexible specialisation to the Turkish case in the context of OSTIM.



### **3.2 Flexible Specialisation versus Mass Production**

Theories on flexible specialisation and mass production have proliferated since the 1980s, especially after Piore and Sabel's seminal work *The Second Industrial Divide* in 1984 in which they examine today's changing process in industry. In order to do that, they distinguish two industrial models of production, which are termed mass production and flexible specialisation. Mass production is characterised by the production of standardised goods, mass markets, intensive use of semi and/or unskilled labour, special purpose machinery and domination of large scale firms. Flexible specialisation is characterised as a type of production which combines new technology, [especially the use of multi-purpose machines] a utility of highly skilled labour force for different tasks, a new management strategy in deploying the firm's resources in accordance with changes in demand, production of customised goods and a trend towards innovation in the production process.

Piore and Sabel claim that the main problem in advanced economies is that the model of production which had been founded on mass production has now reached its limit (Piore and Sabel 1984:4). This is because of changes in the patterns of demand in the market. Markets can no longer be effectively managed and controlled by large firms in an unstable and uncertain environment. For example, the demand for consumer goods varies so much that mass production can not easily respond to it because mass production produces large numbers of the same article by a fixed method. In addition, Piore and Sabel argue that the type of technology used in mass production has been largely defined by the nature of production and mass market demand.

For Piore and Sabel, large firms are not in a position to change their technology as market conditions change. This is because the organisation of work, the type of standardised production, and the method of using a relatively less skilled labour force dedicated to mass production can not sufficiently supply the demand for customised goods which people want. All these changes in the market place necessitate that an

'organisation must therefore be able to respond quickly and flexibly as market conditions change' (Piore and Sabel 1984:162).

Murray (1983 and 1987) argues that deterioration of industrial relations in large firms which was chiefly a result of large firms' worsening market position as cited above, has forced large firms to disperse the production process into a number of units. According to Murray, one of the main reasons for this was to minimise trade unions activities which had been gaining ground in the large firms' shop floor ever since large scale production units were set up to utilise a large proportion of the work force on assembly lines. This in turn, helped workers' unionisation. The irony was that whilst workers were getting more unionised, large firms had to have a tight control on the production process so that the profit margin could be sustained. It was the large firms' strategy, based on *Taylorist Scientific Management*, which was the form of large firms' management strategy in controlling workers and work places in the heydays of mass production until 1970s.

Thus, not only does the differentiated market demand make large firms vulnerable to constant changes but also the form of management structure worsens industrial relations in large firms shop floors. According to Piore and Sabel, obsolescence of the large firms' production system and management becomes more evident everyday. A new shift in the system of industrial development is needed to overcome these difficulties.

Piore and Sabel claim that a *second industrial divide* is taking place which is as major as the first industrial divide which permitted the shift from craft based production to large scale mass production in the nineteenth century. In the second industrial divide, craft based flexible specialised production is once again taking over from mass production [which is also well known as *Fordism*].

Piore and Sabel see the divide as opening up a choice between flexible specialisation [craft based production] and multinational keynesianism [revived mass production]. The former is more accessible and appropriate than the latter. Hence, Piore



and Sabel pay less attention to multinational keynesianism which is, in a sense, a continuation of mass production resting on large firms. Nevertheless, according to Piore and Sabel, large firms should decentralise their production process in terms of subcontracting arrangements with the flexible specialised smaller firms or divide their technological structure into smaller plants in order to be flexible enough to respond to differentiated market demands. They argue that the success of Italian, German and Japanese firms stems mainly from this kind of flexibility in industrial production.

The main criticism of the thesis of flexible specialisation is to be found broadly in the Marxist literature. However, not all Marxist analysis is the same. There are important differences between them. For example, although French Marxists, [the so called French Regulation School] accept that a shift in industry is emerging today, they regard the shift as one by which a new type of accumulation regime is taking place instead of the old accumulation regime of Fordism based on mass production (Aglietta 1987, Boyer 1988, Lipietz 1982 & 1987). Other Marxists (Clarke 1990, Hyman 1988, Pollert 1988a & 1988b, Williams *et al*:1987) do not agree that there is a shift.

Non-Marxist critics like Lash and Urry (1987) have put forward an argument that the capitalist system has changed from a hitherto *organised period* [e.i. fordist mass production period] to a *disorganised period* which is conceptualised by the term of capitalist post modernity. Lash and Urry state that the previous organised period was characterised by mass production, by standardised goods, by organised large firms, by the dominance of class relations, by collectivism and by class based parties. Capitalist post modernity on the other hand, is characterised by individualism, differentiation and segmentation of market forces, by disorganised institutions, by small and medium sized firms and by the production of irregular goods.

Faced with claims about this transformation, scholars such as Pollert and Hyman have advanced criticism which has especially focused on issues of management and control of the production process by capital. Pollert argues that 'the ideological and practical sponsorship of private enterprise and the small business sector, in the form of

privatisation, competitive tendering and maintenance of a vast reserve army of unemployed set the material agenda for using the competitive labour market as the solution to economic regeneration' (Pollert 1988b:44-45). She goes on to argue that capital always needs both skilled and unskilled labour to be flexible claiming 'it is the flexibility of human labour which creates the elastic commodity of labour power and always its extension and intensification in the extraction labour surplus-value. Capital has always required flexibility of labour, struggle over its control has structured management development, the capitalist labour process and the forms of labour organisation' (Pollert 1988b:45).

Williams *et al* (1987) claim that Piore and Sabel's arguments lack empirical evidence to support the case for a new shift in today's industry. They state that 'it is very difficult to identify particular enterprises or industries as instances of mass production or flexible specialisation' (Williams *et al*:1987:415). They assert that in any given enterprise or industry, the characteristics of mass production and flexible specialisation can be found. In addition to this, it is possible to see in the same industry that models of flexible specialisation and mass production can both operate. Both flexibility and inflexibility have been regarded as combining the characteristic features of capitalist development and some writers have argued that mass production and flexible specialisation are not necessarily contrasting alternatives (Williams *et al* :1987, Sayer 1986, Hadjimichalis and Vaiou 1990). On the other hand, Hyman has taken up the point that 'manufacturing industry in Britain employs only a quarter of the labour force. How can this kind of management strategy and work organisation be applied in the rest of the economy?' (Hyman 1988:52).

Fergus Murray is equally sceptical about the shift to flexible specialisation. To him 'present development in the non-fordist sector, like capital goods production (plant and machinery) suggested that this is a shift towards a *flexible automation* rather than flexible specialisation' (Murray 1987:95)



As has been briefly seen from the literature, there are many views that have been put forward in examining the structure of the industrial development mainly in advanced economies. In the following section, the relevance of these issues will be discussed with regard to the case of Third World countries, with special references to small firms .

### 3.3 Small Firms, Flexible Specialisation and Third World Countries

In the 1970s and 1980s, there was a considerable amount of debate on the role of small scale economic activities in Third World countries in overcoming the problem of massive unemployment and continuous poverty. The debate on *the informal sector's* role in economic development is especially worth mentioning here before examining the relevance of the theory of flexible specialisation to small firms in the Third World.

After the second world war, many Third World countries' development strategy of relying on large firms and heavy industrialisation had failed to create an economy with full employment. In the early 1970s, small scale economic activities [named as the informal sector of the economy by the International Labour Office] were put into operation especially with the assistance of ILO. Since then, the role and the position of the informal sector in creating earning opportunities to a large section of population in Third World countries has attracted a great deal of attention in the literature. The basic argument was whether small scale economic activities had the potential to realise the objectives of economic growth and employment (Bromley and Gerry 1979, Connolly 1985, Davies 1978, Ferman *et al*:1987, Gerry 1979, Kenedy 1983, Portes *et al*:1989, Schmitz 1982a, Sethuraman 1982).

Schumacher, in his famous book *Small is Beautiful* termed the small scale economic activities as an *appropriate sector*. According to Schumacher, this appropriate sector which uses appropriate technology for the third world, promises to 'create many

work opportunities in the rural areas and small towns of the third world countries' (Schumacher 1974:143-150).

Since the second half of the 1980s, preference for and endorsement of small scale economic activities has taken on a new shape with the debate on flexible specialisation. In that context, the basic arguments of the thesis of flexible specialisation with special reference to small firms need to be worked out. What is very obvious in today's world is that competitiveness means the capacity to respond to a constantly changing environment. Thus, the flexible use of the *labour force* and *technology* become very important in enabling firms to be flexible.

According to Piore and Sabel, large firms are getting increasingly rigid in making a response to changes in the market. If changes were to be made, there would be two options open to large firms: either to decentralise the production process through small production units with high tech computerised equipment and machinery for gaining flexibility in the production process; or to renew the use of the technology for mass production in accordance with the changes in the market, when the old ones are no longer useful to produce a wide range of products. Of course, this could cost large firms a lot since a change in the use of technology becomes necessary with regard to differentiated market demands. In this case, small batch production, either in large firms' units or in the small firm's shop floor, will be more easily carried out as the use of technology and labour give rise to flexibility in the production process. The claim is that, the use of technology is not as rigid as in large firms. The use of high-tech machinery and equipment which are controlled by computers, allows the small firm to have use of multi-purpose machinery. This means that when there is a change in demand, the firm can easily switch the manufacturing from one product to another as 'numerically controlled machinery' gives the flexibility that the firm wants in the production process. Small size is essential to make flexibility more feasible, because small firms have already got the potential for small batch production.



According to Piore and Sabel, the use of labour and technology is essential in response to differentiated customised demands. However, in the case of mass production, there is a less skilled labour force and special purpose machinery in which workers are subject to control and required to do particular tasks, especially on the assembly lines. Unlike mass production, there is a highly skilled labour force and multi purpose machinery in flexible production. For the flexible firm, not only does the numerically controlled machinery make the system of production flexible but also the highly skilled labour force which carries out different tasks. In this context, for Piore and Sabel, the deployment of a highly skilled labour force for different tasks means that the labour force has to have a range of skills for dealing with different sorts of tasks when necessary.

The question is not whether small firms have the potential for using advanced high-tech machinery and a skilled labour force, but to what extent small firms are capable of achieving these objectives especially in the Third World.

Piore and Sabel do not pay sufficient attention to the relevance of flexible specialisation in Third World countries in their work The Second Industrial Divide. They briefly deal with the issue for Third World countries by saying:

‘it is conceivable that flexible specialisation and mass production could be combined in a unified international economy. In this system, the old mass-production industries might migrate to the underdeveloped world, leaving behind in the industrialised world the high-tech industries and the traditional dispersed conglomerations in machine tools, garments, textiles, and the like-all revitalised through the fusion of traditional skills and high technology. Such a system would have to be created in much the same way as a multinational Keynesian order: and it would require many Keynesian institutional features to maintain economic prosperity and ensure economic stability. To the underdeveloped world, this hybrid system would provide industrialisation... But a hybrid of mass and flexible production would for a time create a universal interest in two basic goals: world-wide prosperity and a transitional welfare state’ (Piore and Sabel 1984:279-80).

In the context of the hybrid system that Piore and Sabel envisaged, the role of small firms is not very clear. Since they have paid little attention to third world economies, how and why these countries are excluded remains unclear. Even the hybrid system in which flexible specialisation and mass production are combined, is not clearly spelt out. Unfortunately, they do not consider how and why this hybrid system is feasible for the Third World.

Sabel in a later work, deals with the implications of flexible specialisation for Third World countries (Sabel 1986). Sabel places emphasis on the formation of industrial districts in achieving flexibility especially among smaller firms. He argues that various public and private institutions, in providing training and services that single firms and consortia are not able to, can provide a solidarity of small firms and aid innovation. Giving the example of the 'Third Italy' Sabel states that 'small and medium sized firms specialising in different manufacturing processes combine to produce final products according to the shifts in demand. The firms form consortia to secure economies of scale in obtaining credits, marketing products, or conducting generally applicable research. If there are economies of scale in one manufacturing operation, a large firmowned perhaps by a consortia of its customers is formed to realise them' (Sabel 1986:41). Sabel argues that the unity of small firms in a given industrial district and the combination of institutions such as trade unions, political parties, church and employers' associations bring about the success of economic efficiency by relying on the institutionalised solidarity of the economically active groups (Sabel 1986:41).

According to Sabel, in the absence of institutionalised solidarity in industrial districts, small firms can be trapped into using low paid labour rather than concentrating on innovative uses of machinery and skills. Thus, 'if one firm takes this route, others are likely to follow and the probable result is to undermine the easy exchange of information between workers and managers which is a precondition of the flexible use of machines. Conversely, local government and private associations must co-operate to provide training and other services usual to innovation which are not provided by single firms



and consortia' (Sabel 1986:41). On the achievement of greater flexibility of large firms by internal decentralisation, Sabel holds with the view that 'Keynesianism' can also stabilise the market because flexible specialisation depends on mass production since there is still a demand for standardised goods despite their decreasing share in total production. Having accepted the importance of flexible specialisation in both the developed and underdeveloped world, for Sabel transfer of the technology of mass-production to the Third World is a necessary complement to flexible specialisation.

As can clearly be seen above, Sabel's (1986) position contradicts his earlier position. Piore and Sabel (1984) largely failed to examine the role and the position of public and private institution in providing various services for small firms and concentrated, rather on the industrial transformation of advanced economies . Despite their implications for small firms' flexibility and its advantages over large scale production units, they have paid little attention to the extent to which co-operative practices among small firms attain flexibility. Moreover, they have not dealt with the role and position of small firms in Third world countries in bringing about flexibility nor have they considered the role of public and private institutions in supporting small firms. Contrary to his earlier position, Sabel (1986) looks at the importance of co-operation and collaboration of small firms in achieving flexibility on a collective bases. It is then Sabel (1986) who puts more emphasis on the significance of networking small firms and its relevance to Third world countries.

In the following section, the role of networking of small firms and its co-operative practices will be discussed with reference to the question of whether agglomeration of small firms in an industrial district makes flexibility viable in Third world countries.

### **3.4 Small firms and Networking**

Co-operative practices and networking of small firms in achieving greater flexibility have attracted more attention in the literature since Sabel's (1986) work. Pyke

for example, claims that co-operation among firms can even lessen price competitiveness since the collaboration in design and development, the sharing of resources and the exchange of ideas could bring about a market structure which is concerned more with quality, delivery, flexibility and reliability (Pyke 1988:362-63). In addition to this, Poon is more optimistic about the outcome of networking among smaller firms but claims that 'collaboration must go beyond small firms' (Poon 1990:119). In this world of networks, systems, information technologies, integration and flexibility, Poon asserts that there are a number of ways in which enterprises can create flexibility. He states, 'flexibility must be embellished with intelligence, support systems, innovation, entrepreneurship, networks, competitive strategies and technology' (Poon 1990:120).

On the other hand, Loveman and Sengenberger use the term *communal organisation* as an example of the social underpinning of flexible specialisation. According to Loveman and Sengenberger, 'what small firms need most of all are some kind of support system to compensate for the inadequate resources available to individual small business. In this respect, there are two principal choices: first, small firms may benefit from the power and resources of large companies, a solution which is likely also to generate the dependence of the small firm on large firms in a hierarchically structured relationship. The secure option is a communal organisation under which the small firm looks for other small firms to associate with and to build a more permanent, mutually constructive network of joint support and resources sharing, possibly with the co-ordinated specialisation of each firm in the network' (Loveman and Sengenberger 1990:59).

On the issue of small firms' agglomeration and their networking to achieve flexibility, Schmitz has made a valuable contribution to the understanding of the role and the position of small firms. According to Schmitz, a number of small firms produce similar products for large firms on a specialised basis on the foundation of *collective efficiency* which is termed as *clustering of small firms*. Clustering of small firms is a process which he describes as follows



‘a group of producers making the same or similar things in close vicinity to each other constitute a cluster. It is however, a major facilitating factor, if not a necessary condition, for a number of subsequent developments (which may or may not occur): division of labour and specialisation amongst the small producers; the provision of their specialised products or operation at short notice and at great speed; the emergence of suppliers who provide raw materials or components, new and second hand machinery and spare parts; the emergence of agents who sell to distant national and international markets; the emergence of specialised producer services in technical, financial and accounting matters; the emergence of a pool of wage workers with sector specific skills; the formation of consortia for specific tasks (e.g. exporting) and of associations providing services and lobbying for its members. The more of these element that are present, the more real the notion of collective efficiency becomes’ (Schmitz 1992:65).

Schmitz mainly focuses on the networking of small firms in response to changes in market demand. The term ‘clustering of small firms’ is important in that it captures the notion of small firms’ flexibility. Schmitz argues that geographically and sectorally dispersed small firms [to him, most rural small industry falls into this category] cannot attain flexibility since the capacity of flexibility cannot be achieved by an individual firm. According to Schmitz (1989, 1990 and 1992), inter-relations between small firms and their relationship with large firms creates a form of environment in which clustering helps small firms operate efficiently and flexibly, that is rarely achievable by dispersed individual small firms. In this context, solidarity among small firms in terms of collective efficiency assists small firms to overcome common problems as well. This *horizontal co-operation* among small firms includes a network of suppliers and purchasers in the market. But, he claims that it does not necessarily mean that there is no conflict between small firms.

In understanding the case of flexible specialisation in the developing countries, he asserts that collective efficiency is the key term, this being a form of a collaboration among smaller firms and other institutions associated with the networking of small firms. This involves, among other things, technological assistance, exchange of skilled

workers, financial support of agents for small firms, proliferation of raw materials suppliers, the emergence of local and sectoral institutions to overcome the limits of internal markets in nearby sites and small firms associations to lobby for the interest of small employers.

According to Schmitz, the economic viability of small firms can not be understood or enhanced by focusing on individual firms. In short, as a result of geographical and sectoral clustering of small firms which bring forth flexibility, Schmitz claims that developing countries can learn some lessons from the experiences of flexible specialisation in developed countries. For him, it is the clustering of small firms in unity and a *strong inter firm division of labour* which is crucial (Schmitz 1992:66).

In the following section, the relevance of ideas about the small firm flexibility to the case of OSTIM in Turkey will be examined.

### **3.5 OSTIM Industrial Estate and Small Firm Flexibility**

The OSTIM industrial estate is the largest and one of the very few privately financed industrial estates with over 2000 workshops and supporting agencies such as trade centres, apprentice schools, health care facilities and residences (Ostim Industrial Catalogue 1991:5). The estate is located in the West of Ankara, where the majority of firms operate in the general field of metal manufacturing.

The conditions under which small firms achieve greater flexibility, in terms of clustering, networking, geographical and sectoral agglomeration of small firms, emergence of private-public, central-local and sectoral institutions, apparently exist in OSTIM. However, the form of co-operation implied among small firms as argued by the writers above, was not significantly confirmed in OSTIM. This is not to say that flexible specialisation has no relevance at all in the context of OSTIM, but that a different form



of small firm business activity is prevalent which is chiefly a result of small firms' market position and their sectoral and geographical agglomeration in the estate.

Three main issues will be specifically examined in the form of small firms' business activities. These are: the use of technology and labour, the networking of small firms; and the occupational and organisational institutions related to small firms [both private and public].

#### **a) The Use of Technology and Labour**

One of the basic arguments of the thesis of flexible specialisation concerns the capacity of the firm to adapt to changes in the market (Piore and Sabel 1984, Schmitz 1989). The use of technology and labour is held to be very important in achieving this greater flexibility. Specifically, it is the use of a computerised high technology, numerically controlled machinery and a skilled labour force that give flexibility to the firm. In this respect, having multi-purpose machinery and a skilled labour force are also vital in being more competitive. Multi-purpose machinery and a skilled labour force allow the firm to produce a wide range of products and give the ability to switch rapidly from the manufacture of one product to another as market conditions change.

The common assumption of the theory of flexible specialisation is that the internal capacity of a firm is a *sine qua non* of being flexible (Piore and Sabel 1986 and Schmitz 1989, 1990 and 1992). That means if a firm's internal capacity, that is the use of technology and the use of labour in the production process, does not produce greater flexibility, adherence to external factors such as a differentiated market demand, subcontracting and so on cannot bring forth the capacity for flexibility. In other words, a firm's internal structure should have the capacity to exploit the opportunity when it emerges in the market. According to this theory, not only do the internal factors favour flexibility but also the external factors. The role of external factors in enhancing the flexibility of small firms will be more specifically examined later on in this chapter.

Small firms in OSTIM do not use sophisticated technology in the production process. However, there is a form of labour-intensive flexibility in the small firms' shop floor since small firms have to be flexible to respond to different subcontract orders and in this respect, small firms have to have the ability to produce various kinds of goods. As the majority of small firms do not use an advanced technology in the production process, the only option for small firms is the intensive use of labour to be flexible.

Small employers were asked what the percentage of customised goods in their total production was. Not surprisingly, 94 per cent reported that more than half of their production is customised. Moreover, 86 per cent of small employers stated that more than 90 per cent of their business activities involved customised production. And only 6 per cent of small employers stated that their business activities mainly depended on regular demand and thus their production line specialised in only a few items.

Those who worked on the basis of customised production said that their business activities relied on subcontract work from other companies since they did not have easy access to subcontract work from the contractor firm. As a result, almost all small firms require a capacity to produce a wide range of goods in order to accept various subcontract work from other firms. In this context, the position of small firms in a chain of subcontracting relationships determines the system of production practices on the shop floor in small firms at OSTIM. Almost all small firms have had the problem of lack of demand (99 per cent) and have not enjoyed regular customer demand.

Likewise, small firms are trapped into the same business practices with respect to the principle of stock control. Small employers were asked to report what the principal means of stock control was. Given that small firms have little chance of having regular orders or to make a long term production plan, it is not surprising that 95 per cent of small employers reported their principal means of stock control to be the system of *just-in-time*. And only a small number of small employers [5 per cent] reported that their stock principle was based on *just-in-case*. The fact is that small firms' market position in a chain of subcontracting relationship means they are not in a position to stock on the



basis of 'just-in-case'. It is also important to make a point here that a great majority of small employers prefer to produce the same article of goods in relatively large quantities and thus, operate a stock system in accordance with the principle of 'just-in-case', if only they could. However, a sizeable proportion of small firms in OSTIM do not have enough working capital and hence are even unable to purchase all necessary raw materials for a relatively bigger order. Such firms are financially incapable of relying on their own resources to buy all raw materials, produce certain items and wait for the customers to come to buy goods that are in the stock. Behind the 'just-in-time' system lies the subcontracting system and behind this lies a lack of working capital.

At OSTIM, the use of machinery, equipment and lathes in the small firms' shop floor is not in line with a highly modern technology of the small manufacturing firms of Italy, Germany and Japan, as suggested by the thesis of flexible specialisation. The main problem for small firms in OSTIM is lack of finance to buy high-tech machinery, since the margin of the profit they get from subcontracting and the amount of capital accumulation that they achieve is not adequate for many firms' survival let alone investing for advanced technology.

The scarce working capital that is chiefly a consequence of the small firms' market position, has been found to be one of the biggest problems that small firms face in enhancing growth potential in OSTIM. Nevertheless, small firms need not utilise a sophisticated technology to be flexible in the production process. The skill formation of the labour force actually helps small firms to gain flexibility in the production process. In this respect, workers of small firms [especially journeymen] are capable of fulfilling various tasks. For example, a journeyman actually knows the use of all the lathes and machinery on the shop floor.

However, on the issue of the use of a skilled labour force and a modern technology with regard to flexibility, when I asked small employers which they considered to be more important in producing a wide range of products on the shop

floor, they mainly regarded the use of technology as slightly more important than the use of a skilled labour force.

**Table 3.1**

**Which do you think is more important for the production of a wide range of products? n=100**

Skill of labour force is more important	25%
The lathe and machinery more important	35%
Both have the equal importance	40%

According to small employers in OSTIM, the use of a skilled labour force may be essential in the production process, but it is the use of modern machinery that makes the small firms’ position stronger in the market. This is because, for small firms in OSTIM, a skilled labour force is relatively cheaper and easier to obtain in comparison to purchasing new machinery which needs an additional investment.

According to the thesis of flexible specialisation, the use of a high level of technology enhances a firms’ capacity to be flexible but the lack of advanced technology does not necessarily prevent firms from attaining flexibility. It is argued that firms can still be flexible if external factors are exploited. In other words, co-operation and solidarity among various sizes of firms, based on collective efficiency, can bring about flexible specialisation on regional and sectoral bases. Schmitz argues that ‘small firms individually cannot attain flexible specialisation: it is the sectoral agglomeration which gives them their relative strength... growth potential of small firms and their resilience during crises depends critically on the emergence of collective efficiency and flexibility’ (Schmitz 1990).



In summary, in the literature the use of a skilled labour force and the level of technology are considered to be important factors in gaining flexibility. It is also claimed that, in Third World countries, a small firm cannot attain the flexibility on an individual basis, so it is the sectoral agglomeration of small firms and their co-operation and collaboration that can bring forth such flexibility.

In this respect, the term of 'collective efficiency' is used in the literature to illustrate this agglomeration of small firms relying on networking and mutual relationship. This is the next issue that I will examine below.

### **b) The Collective Efficiency and Networking of Small Firms**

The concept of collective efficiency is used to explain the dynamism of the relationship among small firms in Third World countries. The idea is to understand how small firms can improve the conditions for flexibility when the external factors [for example, a constant change in the market demand] and internal factors [a use of skilled labour force and a high level of technology] already provide a good ground for small firms to respond to the changes more successfully than large firms. Rasmussen for example argues that 'small scale production can be as efficient as large scale production if external economies of scale and scope are exploited' (Rasmussen 1992:21). The opportunity for this is bound up with the networking of various sizes of firms in an industrial district that brings forth the possibilities for small firms to exploit the external economies of scale. In this context, external economies refer to the geographical and sectoral concentration and clustering of industrial firms in a well known area where adequate services and facilities are easily and cheaply available. It is argued that 'when clustered, firms become more accessible, enjoy better and cheaper services and create easier and stronger ties with each other than they would if scattered' (SESRTCIC 1987:94).

At the same time, networking of small firms rests on a number of forms which include borrowing or lending equipment, sharing their own technical knowledge, exchange of their own skilled labour force, financial assistance, distribution of subcontract work in accordance with each shop's realm of specialisation, technical help to one another for innovation in the production process, exchange of business related information and so on. In addition to this, availability of second hand machinery and lathes in the iron mongers' bazaar and a well established industrial estate providing basic facilities, such as banking, health care, quality improvement centres, transport agencies, laboratories, accountancy, showrooms, communications centres, export agencies and raw materials suppliers, are very important to create a fertile ground for greater flexibility. Last but by no means least, sectoral and geographical proximity of small firms can improve the conditions for their flexibility.

In this respect, it is argued that the reason why small firms collaborate rather than compete is partly because of the way that small firms can only collectively achieve flexible specialisation in the market (Sabel 1986 and Schmitz 1989, 1990 and 1992). Flexible specialisation is associated with the specialised clustering of small firms since individual firms cannot attain flexibility on a singular basis. Therefore, co-operation and collaboration among small firms will bring about the collective efficiency which strengthens the ties among the clustering of small firms and thus flexibility is achieved on a collective basis.

In addition to this, 'when industrial firms are located in clusters of similar and related businesses, they are often exposed to larger groups of potential clients than those they may attract alone... this helps smaller industrial firms a lot in their effort to widen their respective input and output markets' (SESRTCIC 1987:95).

In OSTIM, there is little evidence to support the idea that collective efficiency is prevalent among most of the small firms. Co-operation and collaboration occur at times, but not in the sense of collective efficiency. When a relative or a close friend is in grave financial difficulty or has been unable to obtain a sufficient amount of contract work for



a long time, friends and/or relatives assist the small employer who faces difficulties. The form of assistance usually takes place when friends and/or relatives give some part of the work that is already undertaken or tender a certain amount of money [generally in foreign currencies such as German Marks and US Dollars]. Nevertheless, this assistance always comes to an end when the difficulty is over. In this respect, the patterns of succour are bound up with the survival struggle of small employers and the way they withstand difficulties. One helps another so that one can expect the same when in difficulties. However, as far as the case of collective efficiency is concerned, this is not real sustained co-operation and collaboration among small firms.

Sabel argues that small firms not only collectively respond to changes in market demand but also create a new pattern of demand thanks to innovation (Sabel 1986). As explained earlier, innovations become more likely if small firms exchange various forms of technical knowledge and equipment in the production process. In this context, small firms have to collaborate to get sub-contract work, so that they can collectively achieve their goal of innovation. However, the way most of the small firms are engaged in subcontracting work in OSTIM brings about a different picture of innovation and flexibility in the production process.

As explained in more detail in Chapter Two, it is the form of subcontract work that harms most of the small firms' capital accumulation in OSTIM since a sizeable proportion of small firms have largely failed to get contracts from the first dealers and thus depend on sub-contract work from second or even third dealers. Since there are a number of small firms seeking to get the sub-contract work owing to the agglomeration of numerous small metal working firms in a single settlement, namely OSTIM, co-operation and collaboration are unlikely to emerge. In fact, subcontracting work between large and small firms in OSTIM resulted in conflict among small firms rather than co-operation.

Specialisation of individual firms on particular products did not create collective efficiency as suggested by Schmitz. A very small number of those [with urban origin and

a university degree and employing more than 7 workers] have managed to specialise in a few forms of production items and have the technical advantages for innovation. However, these have concentrated on their own production practices. Once again, it is the extent of competition that prevents many small firms from co-operating in OSTIM. It is also difficult, in the present circumstances, to see how the system of subcontracting would allow those small firms to collaborate.

Vertical relations among small firms have been dominated by conflict and competition rather than collaboration through clustering of small firms. The presence of raw material suppliers, banks, apprentice training schools, quality improvement centres, the iron mongers' bazaar for second hand machinery, lathes and utensils, agents of whole or retail-sellers and buyers have failed to create a thriving networking for most of the small firms. However, one should not rule out the small number of successful small firms run by those with urban origins and better educational qualifications [especially with a university degree] which have used the advantage of clustering of small firms in a chain of subcontracting. These have gained relatively easy access to subcontract works from first and second dealers and sometimes have played an intermediary role in terms of re-subcontracting of certain items to smaller firms.

A great majority of small employers expressed their reluctance for co-operation and technical exchange with their counterparts. Although they produce somewhat similar products at times, there is minimal technological collaboration and collective specialisation in the production process. Although a form of collaboration is still prevalent among close friends and relatives especially at the time of setting up a new business and during periods of financial difficulty, this is not what the theory of flexible specialisation might suggest for Third World countries. Nevertheless, as explained, small employers with urban origin and better educational qualifications have been more successful in creating a form of product-specialisation. They have been able to accumulate capital as a result of their various advantages over others [such as they are better educated, skilled and equipped] in gaining access to raw materials and



subcontracting in a chain of market relation [mainly from the first or at least second dealers]. Therefore, they have found it easier to buy new machinery and lathes.

With regard to innovation in OSTIM, there is little evidence to support the idea of innovation in the production process. During the fieldwork, I often observed that small employers hid their products when close friends and relatives visited. Once outsiders can see what is actually being produced on the shop floor, it is not very difficult for them to make a copy of the same article on their shop floors. Sometimes, this kind of shop visit is a form of industrial espionage. This results in a small employer relocating the necessary machinery or lathe to another part of the shop if he does not want anyone to see what his workshop produces.

The main reason is for this is the form of competition in OSTIM, because almost all small employers have not got enough subcontract work.

**Table 3.2**

**What are the basic problems in not working full capacity?**

Lack of market demand	88
Lack of skilled labour	64
Insufficient machinery	57
Lack of raw materials	15

Note: Numbers do not add up to 100 per cent since small employers were free to choose any of the combinations given above.

In a market where a lack of demand is considered to be the biggest problem for the firms, it is not surprising that the forms of co-operation and collaboration are unlikely to emerge among firms and hence, a much tougher competition becomes inevitable. The case of OSTIM is well illustrated in Table 3.2; competition dominates the market relations since the lack of demand is the problem for everyone. Unlike the example of co-operation of small firms argued in the flexibility debates, small employers in OSTIM are driven to more isolated production practices despite the appearance of

togetherness in the estate. Therefore, sectoral and geographical proximity of small firms in OSTIM has not generated the networking of small firms on the basis of co-operation and collaboration, but has intensified the burden of competition on small firms.

Collective efficiency might be the case where the demand is sufficient if not abundant. In this case, one might expect that firms in the market can co-operate to capture the opportunity of various forms of demand. Where the demand is more scarce, collective efficiency becomes more unlikely with the number of firms exceeding the amount of demand created in a market.

However, as explained earlier, according to theorists of flexible specialisation, the answer is the role of the public and private institutions [whether local or central public or private] in creating a fertile ground for flexibility by means of co-operation among small firms. This is the next issue that is discussed below in the context of OSTIM.

### **c) Public and Private Institutions and Small Firm Flexibility**

It is argued that public and private institutions play an important role in achieving greater flexibility among small firms. The clustering of small firms in a single settlement helps these institutions to provide better and easier services to small firms. In other words, local authorities can deal more easily with a collective problem than with the problem of an individual firm. Schmitz argues that 'local political forces, especially local government, are regarded as essential to the flexible specialisation model in that they steer competition towards innovations' (Schmitz 1992:279). Schmitz goes on to argue that flexibility is unlikely to occur when the institutional support is discriminatory.

In the shadow of large firms, it is unlikely that small firms have been able to gain better access to the contract work directly from first dealers. The institutional framework is considered to be vital for small firms to play a more dominant role in gaining access to contract work. The theory is that an individual firm cannot achieve these goals by itself. In this respect, sectoral associations help small firms to reach the first dealer more easily



at the auctions to get the contract work. One way or another, when contract work is obtained from the first dealers, specific parts of the contract work are given to individual firms in accordance with each firm's specialisation in the production process. Each firm's activity becomes a complementary part of the contract work. That means flexibility is collectively achieved by the clustering of small firms.

Alongside this, according to Sabel for example (Sabel 1986), solidarity among small firms occurs when both sides realise the importance of the other in completing the work. It is also important to note that assistance from the parent firms, which give the contract work, is included in the form of co-operation. This is termed *vertical integration* between various sizes of firms (Schmitz 1989, 1990 & 1992). However, it is mainly the integration of small firms that brings about the flexibility. Exchanges of ideas, equipment, technical knowledge and labour help small firms to specialise in a specific part of the production process and even encourage them to innovate.

How do the small firms' associations and occupational institutions achieve these objectives in Turkey? The attitudes and approaches of small employers towards these institutions are worth examining in the context of small employers' backgrounds.

In Turkish state policy, one of the most considerable attempts to support small manufacturing firms was the establishment of various institutions such as Small Industry Development Organisation (SIDO) in 1983 and Small and Medium-sized Industry Development Organisation (SMIDO) in 1990. SMIDO, a public sector body associated with the Ministry of Industry, was set up to take over all the activities of SIDO as well as the training functions of the Industrial Training and Development Centre (ITDC). Eight specialised development centres, located in different parts of the country, were transferred from SIDO and ITDC to SMIDO and many other units have been set up subsequently. SMIDO units include sector specific centres as well as technological development, quality improvement, consultancy, training, information, marketing and investment guidance centres. They also include testing and analysis laboratories and common facility workshops (OECD 1992:57).

Interestingly, all the activities of these established institutional organisations are aimed at developing small firms and thus the country's economic development and their objectives are considered to be a complementary part of large firms' development. For example, SESRTCIC suggests that 'small enterprises will develop all the more easily as their objectives are complementary to the large enterprises. Small suppliers will remain essential to large enterprises which, in turn, will still provide an industrial output perspective necessary for small and medium size enterprises (SESRTCIC 1987:117).

Since the beginning of the Five Year Development Plans in 1963, the state has formulated various policy measures in order to support small firms. In fact, the aim of the state support policy for small firms has been almost ideally reiterated in each Five Year Development Plan. In general, the aims of the plans have been formulated as below;

- the establishment of a small scale industry development centre to give assistance and guidance to small business in the matters of credits, organisations, marketing, establishment of co-operatives, selection of machinery and equipment, quality control, and the procurement of raw materials, in order to ensure their orderly development,

- to gather small establishments in industrial estates for small scale industry,

- to provide extensive educational and training programmes to accelerate progress in this sector,

- to phase out small industrial enterprises which lead to waste of raw materials and other inputs and which have no growth potential and to transfer their employees to other branches (SESRTCIC 1987:87-88).

The main objectives of the plans did not greatly vary from one to another. In general, the Five Year Development Plans mainly put the emphasis on providing easy and cheap credit, the establishment of a small industry development centre, the development of industrial estates, setting up of small firms' co-operatives, providing



basic facilities through training centres, quality improvement centres and research centres and the like.

The establishment of planned industrial districts plays an important role in industrial development, because small firms' activities become more easily accessible to the major consumer markets for various goods. A settlement of various institutions to provide necessary services for small firms might imply a lower cost of production. In addition, access to cheap labour is much easier in estates so the development plans have placed a great emphasis on providing on-the-job and technical training in the Fifth Five Year Development Plan in 1985-1989 (SESRTCIC 1987:88).

As a result, between 1965 and 1990, the number of completed small industrial estates and work-shops stood at 212 and 58,325 respectively (TESK Commission Report 1990:6). According to the census of industry and business establishments in 1985, the number of small firms was 183,000. It indicates that there were well over 125,000 small work-shops located outside industrial estates in 1990. Nevertheless, there are more than 125 small industrial estates still under construction and they are expected to provide 40,374 new work-shops to small firms. Of these, auto and metal industry (39 and 30 per cent of overall respectively) will occupy the biggest slice (TESK, Commission Report 1990:7). Main financial resources for establishing small industrial estates come from the Ministry of Industry and the credits of foreign institutions such as the Council of Europe.

Another aim of the development plans since 1963 has been to evenly decentralise the industrial and economic activities throughout the country so that regions would be incubators for the country's economic development.

Nevertheless, the workshops in the industrial estates are not necessarily sold to small employers. In OSTIM, 26 per cent of small employers stated that they did not own their workshop. There are actually those who have been in OSTIM since its completion, who rent the workshop and have never had the chance to own one, since the purchase of a workshop is more expensive than they can possibly afford. They complained that a

substantial number of workshops have been sold to those who have occupations which have nothing to do with related business activities in OSTIM. Some owners for example, are guest workers in Germany, whilst some of them do commercial and trade business in a different part of Ankara, and even Turkey.

Small employers were asked to report that in general terms whether state support policies have been successful enough for small firms. As can clearly be seen from Table 3.3 for almost all small employers, the assessment is largely negative.

**Table 3.3**

**Do you think that state policy has been successful enough in providing a wide range of facilities for small firms? n=100**

Yes	11 %
No	89 %

It is not the low number of public supporting agencies but rather their inefficiency in fulfilling the tasks for small firms that have led to their failure. Small employers were asked whether officials put the interest of the institutions for which they worked ahead of their own interest and family loyalties.

**Table 3.4**

**What proportion of state officials are capable of putting institutions' interests ahead of their own interest and family loyalties? n=100**

Almost all	4 %
Most but by no means all	16 %
Relatively few	80 %
Total	100 %

Small employers regard the activities of both the agencies and the officials as not pursuing the interests of small firms. The small employers' negative assessment is a

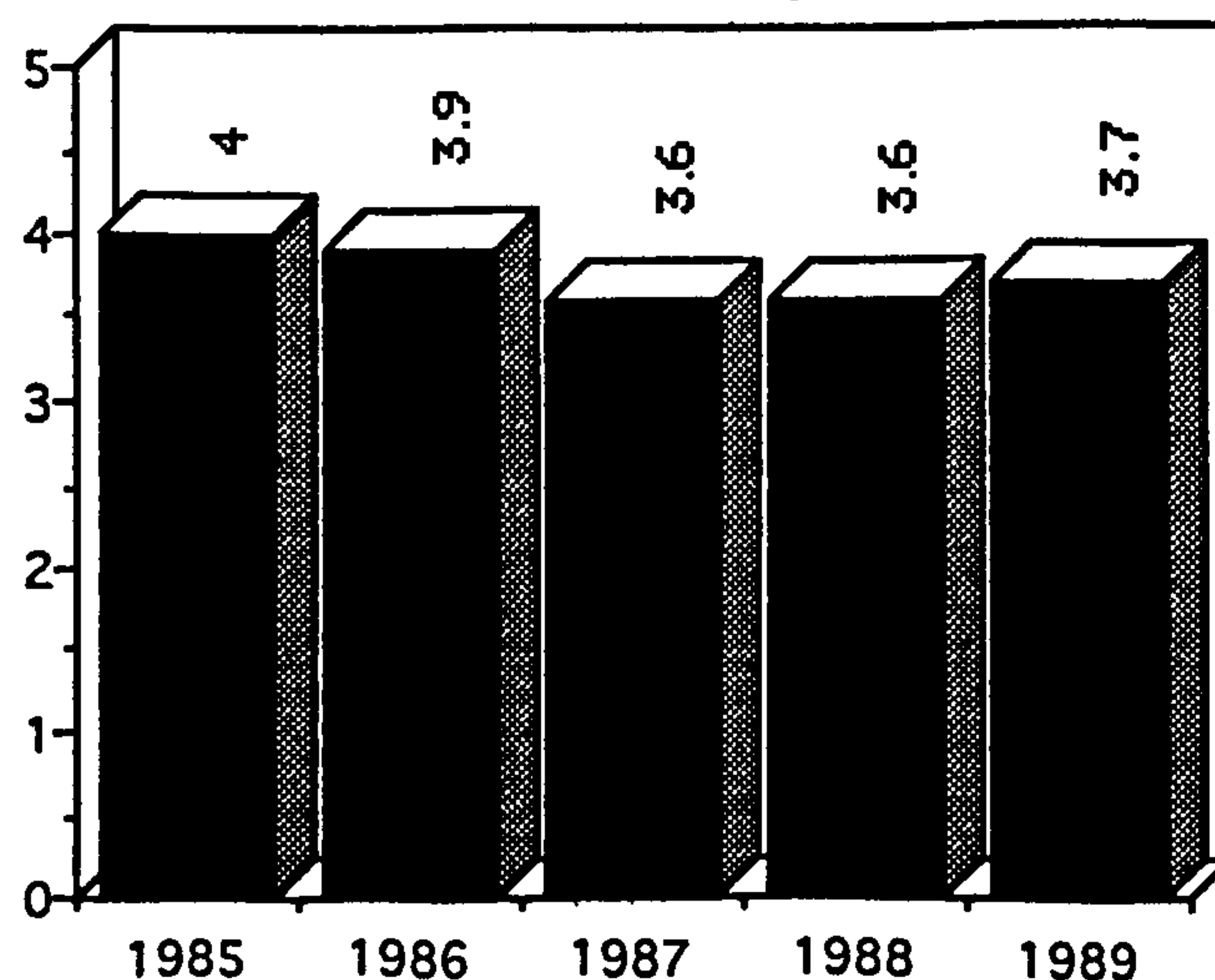


reflection of the inefficiency of these agencies and officials working there, who have been broadly unsuccessful in assisting small scale firms. There are, of course, a number of factors that make these institutions inefficient. It is partly because of the lack of financial resources of those institutions subsidised by the state. In fact, the cost of supporting small firms far exceeds these institutions' financial resources. Another reason is an institutional framework that minimises the autonomy and thus the effective operation of these institutions. As is the case for other developing countries, the presence of excessive bureaucratic formalities and the domination of centralism in the decision making process hinders their work. Dependence of these institutions on state policy making bodies prevents them from achieving their objectives. The reason why 80 per cent of small employers reported that state officials put their own interest and family loyalties ahead of institutions' interests might also be attributed to a system of clientism. Small employers usually experience that state officials tend to be loyal to those who provide favours in return for loyalty.

One of the indications of the failure of these institutions in providing necessary services for small firms is seen in the case of providing credit for small firms.

**FIGURE 3.1**

**CREDIT GIVEN TO SMALL BUSINESS (AS A PER CENT OF TOTAL)**



Source: State Institute of Statistics, various years.

As illustrated in Figure 3.1, credit given by the state institutions and banks to small firms as a percentage of total credits runs at around 3 to 4 per cent. Considering the weight of the small scale sector's activities in total employment in the last decade [62 per cent overall and 36 per cent in manufacturing], their share in gross value added [13 per cent overall and 36 per cent in manufacturing], and their proportion of the number of total establishments [94 per cent in manufacturing], the amount of credit given to small firms and their share of total credit are in fact, very low. It shows that these public supporting agencies have failed to provide an expected service for small firms. Thus, it is not surprising to see, as was explained in Chapter Two, that in the case of financial difficulties small employers never rely on these institutions' assistance but on friends, relatives and even on money lenders.

Small employers were also asked to report as to what was the first and foremost incentive they expected the state institutions to provide for them.

**Table 3.5**  
**What is the Foremost Incentive that you expect the state provide for your firm? n=100**

Provide cheap loans and credits	61
Offer contract works	22
Reduce tax	8
Develop infra-structure	2
Others	7
Total	100

It is once again very clear that the first thing that small employers are in need of is financial help from these institutions. It also indicates that it is always financial difficulties which worry small employers in OSTIM. The failure of these institutions to provide various forms of services for small firms on the one hand, and the inability of small employers to obtain much needed financial help from these institutions on the



other, forces small firms to rely on themselves. It is not only the inefficiency of these institutions, but also a lack of knowledge and awareness of how to apply for and receive financial help that makes many small employers' business activities vulnerable to such difficulties in OSTIM.

In Chapter One, It was shown that at the time of setting up a business, none of the small employers reported that they received credits from a bank, even those with urban origin and better educational background. Even after working a few years, some have never been to banks to get credit. This case is well demonstrated in Table 3.6 below.

**Table 3.6**  
**How many times have you got credits from banks and state institutions in the last five years? n=100**

None	57 %
1-3 times	26 %
4 and more	17 %
Total	100 %

Of the small employers, 57 per cent had not been to a bank to get credit for a considerable period of time. The basic problem for those who have borrowed credit from banks is the conditions that the banks impose. But it is not only that the interest for the credit is too high, but also the lack of knowledge on how to get credit. As one of the small employers put it:

I have never been there because I do not know the formalities for obtaining credit. Everybody says that the interest for credits punishes rather than subsidises us. According to me, the best thing is not to go there unless I have to, if I don't get financial assistance from friends and relatives.

During the field-work, small employers gave many examples of people who had suffered as a result of banks' high interest rates. Only 17 per cent of small employers have got credit more than 4 times from banks. It indicates that state financial policy to

support small firms by credits and cheap loans have not achieved their target in OSTIM. As was explained earlier on in Chapter one, urban born and predominantly better educated small employers have chosen to go to OSTIM and run larger establishments whilst the less educated rural migrants have unwillingly entered small scale economic activities and run smaller establishments. The size of establishment and their position in gaining access to subcontracting and raw materials also correspond to the social differences between small employers. Once again we have the same situation with small employers with regard access to credit from banks. The differences in the use of credit by small employers that are associated with their social origins clearly emerges in Table 3.7.

**Table 3.7**  
**The relationship between social origin of small employers and credits that they got from banks in the last 5 years n=100**  
 A= Small employers with rural origin n=64  
 B= Small employers with urban origin n=36

	None n=56	1-3 times n=26	4 and more n=18
A	76%	54%	39%
B	24%	46%	61%

Table 3.7 shows that the majority of small employers with rural origins have been comparatively unsuccessful in getting credit from banks which is similar to their inability to gain easy access to subcontracting and raw materials.

It would be right to argue that various public institutions have not played an important role in promoting small scale economic activities as desired by the policy making bodies. It is also true to say that these supporting agencies have, on the whole, failed to assist small firms in Turkey. As a result, a large number of small employers have run their business without state subsidy.



Small employers regard their business activity as fragile against the superiority of large firms’ technological, financial and production capacity. Expressions such as ‘we are all a bait for large firms’ [bizler büyük firmalara yemligiz] and ‘big fish eat small fish’ [büyük balık küçük balığı yer] are common. Small employers also regard public institutions as incompetent and inimical to the interest of small firms. According to small employers, those institutions were set up by the state merely to show that the state tries to protect the interest of all. As one of the small employers stated:

the state policy always favours the large firm and so do the institutions. All of us [small employers] are step-children of the state [bizler devletin üvey evlatlarıyız].

As far as the state taxation policy is concerned, a great majority of small employers reported that it is not fair enough and considerably harms small firms’ business activities. Table 3.8 indicates the small employers’ view of state taxation policy.

**Table 3.8**  
**Do you think that state taxation policy has been fair enough towards small firms? n= 100**

	Fair enough n=23	Not fair n=77
Small employers with 1-3 workers n= 20	15%	85%
Small employers with 4-6 workers n= 46	24%	76%
Small employers with 7-10 workers n= 34	32%	68%

A sizeable proportion of small employers consider state taxation policy as being unfair with regard to small firms [77 per cent]. Of small employers 85 per cent who run the smallest establishments regard state taxation policy as being more unfair in comparison to 68 percent of those who run bigger establishments. It indicates that the smallest firms run mainly by small employers with primary school education and with

rural origins, once again suffer more than other small firms which are run by those with better educational qualifications and are of urban origins. In practice, the state taxation policy towards small firms is not a demonstration of the state's supportive policy at all.

As one of them commented below:

The state considers us as a tax-paying machine. We pay the tax in advance and I believe that nowhere in the world is there a state that pursues a policy towards small firms like ours. What they [State financial institutions such as tax office] do is to determine the rate of tax in accordance with the amount of capital turnover that a firm performed a year before. It does not matter whether you made a certain amount of profit or not but you are compelled to pay tax accordingly.

Another small employer stated that:

In some programmes and series on the state's television, we [small firms and small employers] are shown as those who do not pay any tax, employ little children, provide bad working conditions, offer very low pay, are involved in the black economy, and so on. This is plain discrimination towards us and it is the state that does it in front of millions as if we are criminals, non-Muslims, outsiders, law-breakers and so on.

As to the role of private institutions in helping small firms overcome the difficulties that public institutions have mostly failed to overcome, it is important to have a closer look at the activities of these occupational organisations such as the Union of Petty Businessman Credit Co-operations, Chambers of Trade, Chamber of Blacksmiths and Confederation of Small Artisan and Tradesman Association (TESK), since the theory of flexible specialisation has placed a great emphasis on the importance of these private institutions in fulfilling various roles in promoting small firms' growth.

One might be led to believe that private institutions would be more likely to successfully support small firms than public institutions since these private institutions can seek the interest of small firms much better than anyone else or any other institution. One might also think that private institutions' activities could exert stronger

pressure lobby on policy making bodies to gain various benefits from the applications of state policies. It is the large firms' private institutions that are successful in supporting their members, such as TUSIAD in Turkey [Turkish Industrialists' and Businessmen's Association] which is equivalent to the Confederation of British Industry [CBI]. The ineffectiveness of small firms' organisations in influencing state policy regarding cheap loan credits, and their inefficiency in solving the common problems of small firms such as getting new markets, is very visible.

For example, the proportion of small firms' exports in total is no more than 8 per cent in Turkey (Karatas 1991:110). Considering the weight of small firms in the Turkish economy, their share of total exports is small and thus small firms are forced to operate in a limited market environment where demand is low and the profit margin is very difficult to increase. When I asked the question about the importance and existence of small employers' associations, a small employer said:

They [small employer's associations] are a waste of space. I do not really need them. I disregard what they do and I resent having to pay annual membership fees. Those associations are toys for large firms to play around with.

Another pronounced:

Small employers cannot be united under the umbrella of those associations. Because none of the small employers trust the other, nor do I. Small employers are rivals to one another to get subcontract work. How can these associations make us rely on others? It is a challenge to make a living so I only rely on myself, not others. I have spent all my life to come to this point and I do not want to loose it for the sake of others.

Small employers have to be registered in sector specific institutions so that they can have the legal authority to apply for bids for bank credit, pay taxes, have a right to utilise a range of estate services, use a business related [officially recognised] address for correspondences that proves the reliability and legality of the firm to others and so on. Even before setting up a business, an entrant is asked to register his firm with these



sector specific institutions so that it can be legal and official for the new small employer to operate his business. The need for this compulsion of small employers to be affiliated to these institutions indicates the fact that small employers do not voluntarily get together to establish occupational and organisational institutions to help small firms. It does not, of course necessarily mean that small employers do not want any form of institution. In fact, they do, but the way small firms are founded and run does not create a kind of institutional structure that the theory of flexible specialisation might suggest for small firms.

The extent to which small employers' associations can pursue the objectives of small firms, is bound up with the social and economic characteristics of those who make their living there. In OSTIM, in comparison with the relative success of large firms' institutions, neither small firms' private institutions nor public ones have been effective in solving small firms' problems. It is partly a result of the social characteristics of small employers and the position of small firms in the hierarchy of market relations such as subcontracting

In Table 3.9 it can be seen that small employers' assessment of whether private institutions are important in overcoming small firms' common problems are related to their origins.

**Table 3.9**  
**How Important are Small Firms' Associations and Institutions in Overcoming Small Employers' Common Problems? n=100**  
A= Small employers with rural origin n=64  
B= Small employers with urban origin n=36

	Important n= 44	Not important n= 56
A	33%	67%
B	64%	36%

**Table 3.10**

**The Effects of Small Employers' Educational Background on their Assessment of the Importance of Small Firms' Associations and Institutions.**  
**n= 100**

**A= Small employers with primary school education n= 52**

**B= Small employers with secondary or high college degree n= 48**

**C= Small employers with university degree n= 16**

	Important n= 44	Not important n= 56
A	29%	71%
B	56%	44%
C	69%	31%

According to Table 3.10, there is also a noticeable distinction between the assessment of those institutions by small employers with primary school education and those with a university degree. In this respect, the level of education is a determinant factor that affects small employers' views about the importance of private institutions and associations. Small employers with secondary school or university degree consider the role of small firms' institutions as being more important than those with primary school education. Particularly, small employers with a university degree regards these institutions as important in solving their common problems. As discussed in Chapter One and Two, the lack of educational formation among small employers has a constraining effect on small firms' growth not only with respect to failure in gaining an easy access to subcontract works and raw materials, but also to their ability to overcome difficulties. Similarly, small employers with rural origins consider these institutions as less important compared to those with urban origin.

If small employers do not believe in the importance of these institutions, whether private or public, and regard them as useless because they think they will not be successful, this is because large firms' institutions and associations have already taken control in maintaining the interests of large firms whether at regional or national level. It is not surprising to see that a sizeable proportion of small employers do not regard small employers' institutions as a way of solving the small firms' common problems. When one considers the assessment of the majority of small employers as an indication of the overall attitude, the finding of this study is not in line with the main argument of flexible specialisation since neither small employers' private institutions nor public institutions [whether local, regional or national] have produced the desired results for small firms. This failure can be attributed to the social and economic characteristics of those who work there and the position of small firms in the hierarchy of market relations [access to subcontracting and raw materials].

The negative assessment of small employers' associations is partly due to their ineffectiveness and also partly the result of the social background of small employers that shapes their insights and understanding of social and economic relations in the market. In addition to this, the excessive bureaucratic *red tape* of the regulations of the state institutions that almost all small employers face throughout running a business, incline them to disregard organisations and associations which seem too perplexing and complex to understand. Nevertheless, small employers with urban origin and higher educational qualifications have reported these institutions as relatively more important in solving the small firms common problems. It is actually these successful small firms that have benefited from the existence of these institutions.

However, bureaucratic formalities are a common problem for all small employers in OSTIM. For example, right at the beginning, if someone wants to set up a new business, there are many bureaucratic formalities to deal with. Firstly, the new small employer needs to register his business with the Registry Office of Small Tradesman and then apply to the district tax office [Ulus Vergi Dairesi] to have a tax number. Following



this, the new small employer is required to go to the local municipality [Yenimahalle Belediyesi] to have the permission for establishing and running business. After that, the new small employer needs permission from the department of fire brigade at Yenimahalle Belediyesi, as to whether the work place conforms with fire regulations. Then, the new small employer is requested to get permission from the municipality's machinery conditioning department [Yenimahalle Belediyesi Fen Isleri Dairesi Başkanlığı] in controlling the HP [horse power] of lathes and machines on the shop floor. In addition, getting permission from the body responsible for running the industrial estate and the sectoral institution is compulsory. Dealing with these formalities goes on and on and eventually a small firm is set up officially after spending more than 20 and 25 days and a significant amount of money on unnecessary formalities such as payments of various kinds of receipts, invoices and statements for registrations or permissions in each department.

Small employers' associations have done little to reduce the red tape let alone promote small firms' activities at local, regional and national level. Thus, the small employer's continuous struggles in dealing with bureaucratic formalities are prolonged since neither public nor private institutions have eased the passage for small firms.

## **6. Conclusion**

Small firms in OSTIM, and the activities that they are engaged in, do not generally confirm the theory of flexible specialisation in terms of collective efficiency, inter-firm division, innovation and technological and skill formation. A large proportion of small firms in OSTIM do not fit into the category of the flexible firm model which has been argued to be present in Italy, Germany and Japan. The majority of small firms which are run by those with rural origin and primary school education have done little to improve the quality of products and services by using rudimentary technology. Others

with urban origin and better educational qualifications have fared relatively better since they have utilised a relatively high technology and a skilled labour force.

Collective efficiency is quite rare in OSTIM, since the lack of market demand has intensified price cutting. The proliferation of small firms by new market entrants [especially by journeymen] also accelerates the competition and thus reduces the profit margin. Small employers with rural origin and primary school education mainly use a low level of technology and have generally failed to upgrade technology as a result of small firms' falling returns in a chain of subcontracting system. However, other small employers, again those with urban origin and better educational qualifications, have been able to purchase relatively new machinery and lathes and have achieved a certain degree of specialisation in the production process since they have been capable of reasonable capital accumulation and have been able to invest in new machinery and lathes. As a result, these relatively successful small firms have developed their internal capacity [the use of technology and the labour force] to be flexible enough to respond to different market demand. These successful firms have also been more aware of the roles of various public and private institutions and hence, have benefited from their existence by obtaining credits and loans. Although they are small in number, these successful firms use relatively more flexible technology and a highly qualified skilled labour force [some of them employ at least one engineer on the shop floor]. In respect to their skill formation of labour force and technological capacity, those small employers have been able to produce a wide range of products and therefore had the capacity to respond to constantly changing market demand. Nevertheless, they have not shown any intention of co-operating with others to enhance inter-firm division of labour and for innovation in OSTIM. Having said that, they play an intermediary role at times, in terms of subcontracting of some parts of their own contract work to smaller firms.

However, a great majority of small firms do not fit into this category since they have been incapable of bringing about a flexible internal capacity as a result of their scarce working capital which is chiefly associated with their market location especially

in the system of subcontracting. In order to increase the profit margin, these small firms have been forced to squeeze their own labour force and have no wish to co-operate with other firms who they regard as their main rivals. Consequently, neither inter-firm division of labour nor innovation emerged to raise their capacity for flexibility.

As for institutional structure, state policies, regulations and various public institutions, these have produced poor results for small firms in OSTIM. A high degree of centralisation of resources and decision making in Turkey has failed to generate an efficient institutional structure with adequate resources, sufficient finances, competent staff and authority. In fact, public institutions' programmes and regulations have been overly controlled by the excessively centralised decision-making bodies of the government. As a result, they have been unable to provide efficient services for small firms. In this respect, it is not wrong to say that the application of state institutions in providing various services for small firms has been largely inadequate, weak and insufficient and therefore has increased the intensity of the competition through price cutting and lessened the possibility for collective efficiency.

The presence of private institutions does not show a much better picture for small firms. Like public institutions, private ones also have also been poorly equipped to assist small firms in overcoming common problems. They are mainly unable to meet the requirements of small firms as a result of rigid sets of regulations, struggling to overcome bureaucratic formalities and incapacity to make an adequate use of limited financial sources.

Nevertheless, a small number of firms that are run by urban born small employers with better educational qualifications have benefited more and are better off in comparison to a large proportion of small employers with rural origins and primary school education.

The best educated small employers from urban origins who run the bigger establishments [7-10] and whose technology is highly developed do evidence some



features of Piore and Sabel's (1984) and Schmitz's (1989, 1990 and 1992) discussion of small firms' flexibility. However, the majority of small employers in OSTIM run their businesses on the bases of low trust rather than high trust. It is mainly the position of small firms in a chain of market relations and their social background that have produced low trust relations among themselves. Last but by no means least, small firms' associations and institutions [private or public] are also far from bringing forth a form of networking in the way Schmitz suggested since the dominance of large firms' associations in decision making and their strength in the hierarchy of market relations largely deny the possibility.

In the next chapter, the position of small firms and the role of small employers will be examined in the wider social, economic and political environment in which many earn their livelihood at OSTIM

# **CHAPTER 4**

## **THE SMALL FIRM SECTOR OF THE ECONOMY: Its Social, Political and Ideological Implications**

### **4.1 Introduction**

The aim of this chapter is to examine the small firm sector of the economy and the political and ideological features of this sector, where many make their living. I will also attempt to explore the socio-economic characteristics of small employers with special reference to OSTIM.

Firstly, I will focus on analysing the basic economic terms [the size of small firms, investment, employment, value-added, input-output, and so forth], and examine the growth potential of small firms in Turkey in general and OSTIM in particular. Secondly, I will examine the political and ideological features of small firms' owners, [the attitudes of small employers towards employment relations, other social groups, political parties, ideological movements, etc.] in building their social and economic environment.

### **4.2 SMALL FIRMS: A Socio-Economic Analysis**

Studies of small firms have predominantly focused on economic accounts by analysing the role and position of small firms in economic development, both in developing and developed countries (Todaro 1980; Anderson 1982; Little *et al* 1987; Bannock 1981; Ganguly and Bannock 1985). Small firms are regarded as essential to the economy for creating employment opportunities and for their contribution to economic development in terms of input, output, value added and the like. The proliferation of small firms in times of economic decline and recession is considered to serve as a life-boat in preventing a further deterioration of the crisis. It is generally considered that

depressed labour market conditions push individuals into small scale economic activities. According to Bögenhold and Staber (1991:235), self-employment tends to increase in times of high unemployment and slow economic growth. Gerry (1985) claims that people who make their living in small scale economic activities survive in the marginal areas of economic activity where profit opportunities are limited. As a result, it is argued that people who work in small firms are subject to bad working conditions and low wages.

Another factor contributing to the growth of small firms is the establishment of a wide range of subcontract relations between large and small firms (Wattanabe 1971 and 1978, Brusco and Sabel 1982, Toivonen 1989, Sengenberger *et al* 1990). It is argued that there is evidence of growing use of subcontracting by large firms, which has facilitated the number of small firms to grow faster than ever in modern economies as it becomes essential for large firms to use small firms and exploit their cheap labour in reducing costs (Murray 1983 and 1987; Rainnie 1991). In developing economies, along with the factors mentioned above, it is asserted that migration, a rapid growth of population both in the rural and urban areas and lack of employment opportunities in the formal sector of the economy have increased the number of small firms (Davies 1978 and 1979, Bromley and Gerry 1979, Todaro 1980, Sethuraman 1976 and 1981).

#### **a) Statistics of small firms in Turkey**

As explained in Chapter One, it is the form of the urban labour market which usually pushes individuals with rural origins, and a lack of educational and technical qualifications, into the world of small firms in Turkey. Those who have failed to gain access to occupations in the formal sector of the economy have found themselves in a low paid work environment with poor working conditions. It was shown in Chapter Two that since small firms have no easy access to contract work directly from the first dealer, subcontracting arrangements between large and small firms exist. Since almost all small employers do not have access to contract work, the competition among small firms is



intense and there is a lack of vertical and horizontal co-operation among various sizes of firms.

Having established the significance of small firms in creating employment opportunities mainly for poor people, one must also investigate the diversity and heterogeneity of small firms in different sectors and regions across the country, where the factors such as the extent of capital accumulation, capacity for innovation, the level of income, working conditions and employment relations differ a great deal. A breakdown of the various categories of small firms in the Turkish economy is necessary to understand their importance.

**Table 4.1**  
**Population by Economic Activity**

	1980	1985	1990
Agriculture	7,583,000	8,095,000	8,449,000
Industry	2,612,000	3,014,000	3,533,000
Services	3,618,000	4,251,000	5,153,000
Total	13,813,000	15,360,000	17,145,000

Sources: Statistical Yearbook of Turkey, various years.

As Table 4.1 shows, the majority of the economically active population remain engaged in agricultural activities whilst the industrial sector employs considerably less people compared to the service and the agricultural sector. However, in the last decade, the share of agriculture in GNP has declined dramatically from 20 to 16 per cent, whereas the share of industry in GNP rose from 33 to 36 per cent (Statistical Yearbook of Turkey 1990 and 1992). It indicates that the activities that are involved in agriculture have a low productivity *vis-a-vis* industry.

As to the proportion of the self employed in the total economically active population, it is very clear that the employment structure of the Turkish economy predominantly consists of small scale economic activities as shown below in Table 4.2

**Table 4.2**  
**Economically Active Population, Self Employment and Family Workers in Turkey**

	1989	Percentage in total labour force
A= Self-Employment	5,262,904	28.2%
B= Unpaid family workers	6,770,834	36.4%
A+B= Total	12,033,738	64.4%

Sources: Statistical Yearbook of Turkey (1990).

According to Table 4.2, almost two thirds of the economically active population is employed in small scale economic activities. The number of unpaid family workers mainly employed in the rural areas [but not necessarily in agriculture] is also very high. Recent studies on the rural industries of the various regions of Turkey (Ayata 1987, Aktar 1990, Kaytaz 1990) have shown that especially in the carpet industry, the majority of the labour force is unpaid family labour [including children]. Nevertheless, it is important to note that the number of small employers who are self employed, exceeds five million.

As far as the percentage of self employed persons [unpaid family workers not included] is concerned, according to Table 4.3, there are almost 2.3 million people engaged in non-agricultural economic activities. Table 4.3 shows that 56.7 per cent of self-employed persons are engaged in agricultural activities. Wholesale and Retail trade constitute 17.2 per cent of the self-employed, whilst manufacturing makes up 13.2 per cent.

**Table 4.3****Percentage of Self-Employed Persons by Branch of Economic Activity.**

Branches of Economic Activity	1989	Percentage
Agriculture	2,988,485	56.7
Manufacturing	695,741	13.2
Wholesale and Retail Trade	906,662	17.2
Transportation-Communication	358,952	6.8
Social-Personal Services	200,120	3.8
Construction	61,099	1.2
Others	51,845	1.1
Total	5,262,904	100

Sources: Statistical Yearbook of Turkey, (1990).

As far as the number of small establishment in manufacturing is concerned, small firms still occupy an important place in this sector.

**Table 4.4****Number of Establishments in Manufacturing (1970-1985)**

A= Establishments; 1-9 persons engaged

B= Establishments; 10 or more persons engaged

	1970	%	1980	%	1985	%
A	170,123	97.1	177,175	95.3	183,573	94.5
B	5,176	2.9	8,694	4.7	10,646	5.5
Total	175,299	100	185,869	100	194,219	100

Sources: Küçük Sanayi (trans: Small Industry), State Institute of Statistics (1989:5).

As Table 4.4 demonstrates, the number of small firms in the manufacturing sector [less than 10 workers engaged] increased from 170,123 in 1970 to 183,573 in 1985. Despite its decline from 97.1 per cent to 94.5 per cent, the number of small firms is still very high. In fact, there is a manufacturing firm for every 8 persons who are engaged in this sector. This indicates that small firms play an important role in creating employment opportunities in Turkey.



However, as Table 4.5 indicates the proportion of number of persons employed in small manufacturing firms declined noticeably *vis-a-vis* large firms' share.

**Table 4.5**

**Number of Persons Employed (unpaid family workers excluded) in Manufacturing (1980-1985).**

	1980	%	1985	%
Establishments; 1-9 persons engaged	493,743	38.3	472,068	33.5
Establishments; 10 or more persons engaged	795,573	61.7	936,732	66.5
Total	1,289,239	100	1,462,839	100

Sources: Küçük Sanayi (trans: Small Industry), State Institute of Statistics (1989:5).

According to Table 4.5, the number of people employed in small manufacturing firms declined from 493,743 in 1980 to 472,068 in 1985 whilst there is a considerable increase in the number of people who are employed in large manufacturing firms, from 795,573 in 1980 to 936,732 in 1985. More interestingly, despite this decline of employment in small manufacturing firms, as seen earlier, the number of small firms increased in the same period from 177,175 to 183,573. It indicates that many of those who fail to find a job in the formal sector of the economy, especially in the public sector are driven towards small scale economic activities, and this further contributes to the number of people who set up new businesses.

The share of small firms in manufacturing employment is still quite high at 33.5 per cent, a testimony to their ability to survive in an urban context. As explained in Chapter One, people chose to work for small firms only because they failed to get into the formal sector. The prevalence of small firms in Turkey indicates the impact of the labour market on individuals with predominantly rural origins and with lack of educational and technical qualifications. It is mainly textile-leather, metal and wood manufacturing industries that provide employment opportunities in Turkey.

**Table 4.6**

**Number of Establishments and Employed Persons (unpaid family workers excluded) in the Branch of Manufacturing in Turkey (1-9 persons engaged).**

The Branches	Establishments (1985)	Employed persons (1985)
Food and Tobacco	19,529	62,022
Textile and Leather	59,082	137,039
Manufacture of Wood	37,033	94,511
Manufacture of Paper	4,467	13,489
Manufacture of Chemicals	7,522	20,055
Non-Metallic Minerals	5,295	16,292
Iron-Steel Basic Industry	2,395	6,900
Manufacture of Metal Product	43,260	110,485
Others	4,990	11,275
Total	183,573	472,062

Sources: Küçük Sanayi (trans. Small Industry, State Statistics Institution of Turkey (1989:5-7).

Table 4.6 shows that in the manufacturing sector, textile-leather and metal manufacturing constitute more than 50 per cent of the total establishments and numbers of people employed in small firms. Growth in the number of small manufacturing firms is therefore in line with industrial development since it is textile and metal manufacturing that makes up half of the value-added in the industrial sector.

Although small manufacturing firms occupy a considerable share in the number of total establishments and employment, their proportions in value-added, input, output and power capacity [HP] as shown below in Table 4.7, are rather less *vis-a-vis* large manufacturing firms. According to Table 4.7, power capacity, input-output and value-added in manufacturing are mainly dominated by large firms, despite small firms considerable share in employment, and in the number of establishments. It shows that small manufacturing firms are less productive and use rudimentary technology in the

production process. It also indicates that the production process of small firms is mostly based on labour intensive practices and they rely on cheap labour to reduce the cost of production. There is also much competition amongst the small firms and the lack of capital accumulation inevitably constrains a large proportion of small firms from making the necessary investments to enhance productivity and efficiency and thus reduce the cost of production.

**Table 4.7**  
**Large and Small establishments by the Percentage of Input, Output, Capacity of Power (HP) and value-added in Manufacturing Industries in Turkey in 1985.**  
 A= Small establishments; less than 10 persons engaged,  
 B= Large establishments; 10 or more persons engaged.

	Power capacity	Input	Output	Value-added
A	24.6	43.1	10.8	12.4
B	75.4	56.9	89.2	87.6

Sources: Statistical Pocketbook of Turkey (1990:154-55).

As far as Ankara is concerned, there were 10,833 small firms operating in the manufacturing sector in 1980 (State Institute of Statistics, Census of Industry and Business Establishment 1984:43). The majority of the small firms [4,066] are engaged in the manufacture of fabricated metal products, machinery and equipment transportation vehicles, scientific and professional measuring and controlling equipment. Other important branches of the manufacturing sector include textile, apparel and leather industries and the manufacture of wood products including furniture, [2,430 and 2,790 respectively] (State Institute of Statistics, Census of Industry and Business Establishment 1984:43).



**b) Growth potential of small firms at OSTIM**

At OSTIM, small firms are mainly engaged in metal manufacturing. According to the OSTIM Industrial Catalogue (1991), 60 per cent of small firms work in the general field of metal manufacturing. As explained in Chapter One, small employers reported that they raised their capital from private savings and personal borrowings when they set up their business. Despite financial problems in setting up a business and the difficulties in gaining access to subcontract work and raw materials, OSTIM’s small employers have sometimes been able to expand the size of their business over a few years. All small firms at OSTIM are founded with insufficient equipment and tools and it is essential therefore, for newly started small employers to equip their businesses in a short time so the firm can survive. However, the degree to which each small firm achieves the expansion varies considerably in respect to small employers’ socio-economic background.

Firstly, small employers were asked to report what kind of expansion they had achieved in the last 2-3 years.

**Table 4.8**  
**What Kind of Expansion Have You Achieved in The Last 2-3 Years? n= 100**

Workers only	2
Shop size only	0
Machinery only	3
Workers & shop size	2
Workers & machinery	54
Shop size & machinery	3
Workers, shop size & machinery	29
Not expanded	7
Total	100

Almost all small employers have expanded the size of the business in the last 2-3 years. The expansions however, have been mainly in numbers of workers and in the use

of machine’s capacity [HP]. Fifty four per cent of small employers stated that they expanded their businesses by increasing the efficiency of machines and increasing the number of workers. Twenty nine per cent of small employers stated that expansion occurred in the number of workers, machine power [HP] and in the size of the shop.

However, the expansion of a small firm in the past does not necessarily mean that it will continue to expand in the future. As explained in Chapters One and Two, at OSTIM, Turkey’s biggest industrial estate, the majority of the small firms operate in metal manufacturing. The market position of small firms is considerably bound up with the origins of those who run the business. Thus, it is argued that socio-economic characteristics of small employers such as the level of formal education and technical qualifications can actually have a different impact on various issues like the firm’s potential for expansion in the future, access to raw materials and subcontract work, the size of establishment and getting loans from the bank.

Similarly, the socio-economic characteristics of small employers can also be bound up with a number of economic issues that small firms are engaged in. For example, Table 4.9 shows that there is a relationship between the small employers’ origins and the expectation for expansion in the future.

**Table 4.9**  
**The Relationship Between Origins of Small Employers and the Expectation for Expansion in the Future. n= 100**  
 A= Small employers with rural origins n= 64  
 B= Small employers with urban origins n= 36

	Likely to expand	Unlikely expand	Don’t know
A	40 %	38 %	22 %
B	61 %	22 %	17 %



It is also very clear that although a certain expansion of the business is likely for almost all small employers at OSTIM, a further expansion of the business is more likely among small employers with urban origins.

**Table 4.10**  
**The Relationship Between Formal Educational Background and Expectation for Expansion in the Future n= 100**  
A= Small employers with primary school certificate n= 52  
B= Small employers with secondary or high collage diploma n= 32  
C= Small employers with university degree n= 16

	Likely to expand	Unlikely to expand	Don't know
A	33 %	44 %	23 %
B	56 %	25 %	19 %
C	81 %	6 %	13 %

In addition, small employers with better educational background are more likely to expand the size of the business in comparison to those with poor educational backgrounds. Those with university degrees are especially more optimistic about the further expansion of the business since their technical and managerial knowledge are superior to those with less educational qualifications. Not only does the technical and engineering knowledge of design give some small employers more advantages but also the excellence of managerial capacity of these employers underpins the growth of small firms relative to others. Table 4.10 shows that whilst 81 per cent of small employers with university degrees stated that they would expand the business, only 33 per cent of small employers with primary school education wanted to expand the size of the business. Moreover, just 6 per cent of small employers with university degrees had no plans for further expansion contrary to 44 per cent of small employers with primary school education who reported that further expansion of the business was unlikely.

Likewise, the size of establishment is also a very important indication for business expansion. As explained in Chapter One, small firms that employ more workers,



especially the firms with 7-10 workers, are mainly run by those with urban origins and better educational and technical qualifications. Accordingly, small firms with 7-10 workers are more likely to expand the size of the business.

**Table 4.11**  
**The Relationship Between the Size of Establishment and Expectation Of Small Employers for Expansion in the Future.**  
A= Small employers who employ 1-3 workers    n= 20  
B= Small employers who employ 4-6 workers    n= 46  
C= Small employers who employ 7-10 workers    n= 34

	Likely to expand	Unlikely to expand	Don't know
A	30 %	50 %	20 %
B	39 %	33 %	28 %
C	70.5 %	20.5 %	9 %

As Table 4.11 shows small firms with 7-10 workers are more optimistic about the expansion of the business in the future compared to those firms with 1-3 workers. As explained earlier, the majority of small firms with 7-10 workers are owned by those with urban origins and better educational qualifications. These small firms with 7-10 workers are hence better set for the expansion as a result of their owners' technical, engineering and managerial superiority in running the business. Since it is these firms that have better access to subcontract work and raw materials, their relatively bigger working capital, which is mainly the result of firms' relatively advantageous positions in a chain of market relations, underpins these small firms thus enabling further expansion. However, the majority of small firms which are run by those of rural origins and lacking educational and technical qualifications, are trapped into market relations where the profit margin is low and capital accumulation is limited. Their scarce technical knowledge especially of engineering design and managerial capacity, prevent them from breaking the barrier to grow beyond a certain point.

All these factors also relate to the working capacity of small firms at OSTIM. For example, as Table 4.12 demonstrates there is a significant relationship between the origins of small employers and percentage of capacity utility. Small employers with rural origins are more likely to work at lower capacity than those with urban origins, since as explained in Chapter One, the rural born small employers who lack educational and technical qualification and employ less than 7 workers, have no access to contract work from the first dealer. As a result of this, they maintained the lack of demand from the market was their biggest problem.

**Table 4.12**  
**The Relationship Between Percentage of Capacity Utility and The Origins of Small Employers n= 100**  
 A= Small employers with rural origins n= 64  
 B= Small employers with urban origins n= 36

	Less than 50 %	Between 51-75 %	More than 76 %
A	52 %	28 %	20 %
B	38 %	31 %	31 %

As Table 4.12 shows more than half of small employers with rural origins run businesses which operate at less than 50 per cent capacity utility. Although working to low capacity is a problem for everyone, it is the rural born small employers who are more desperate to get subcontract work compared to those with urban origins. The reason for working to low capacity reported by almost all small employers, can also be attributed to the fact that the attempt to increase capacity utilisation is always threatened by new entrants who are always ready to accept orders below the market rates. In the case of a peak in demand, it is very difficult for small employers who are desperate to get work, to increase capacity utilisation, since many others seek to exploit the opportunity.

As one small employer said:

At times, you see that your business is doing well but suddenly others [small employers] realise that something is going very well somewhere in the tiny edge of the market. You really never know how they perceive it and accordingly throng there, but this is a fact that you really have to accept whether you like or not.

Similarly, small firms' access to local and national markets differ in accordance with differences in the origins of small employers. Small employers were asked to report whether it was for the local or national market that their firms usually operated.

**Table 4.13**  
**Which Market is Your Firm usually engaged in?**

	Around Ankara	All over Turkey
A= Small employers with rural origins; n= 64	47 %	53 %
B= Small employers with urban origins; n= 36	25 %	73 %

As can be seen in Table 4.13, small employers with urban origins have more business throughout Turkey in comparison to those with rural origins. Once again, it is very evident that small employers with rural origins have more difficulties in breaking the barrier of the local market than those with urban origins. In this context, it is correct to suggest that with limited or no direct access to subcontract work and raw materials small firms that are owned by rural migrants are in fact found to be perilously close to business failure. It is the small firms run by those with urban origins that have been able to provide better prospects. The majority of small firms which are run by rural migrants have largely failed to offer a desired livelihood that many migrants have worked to achieve for a long time.



### **c) Entrepreneurship and small employers**

In market economies, it is argued that entrepreneurship is the paramount factor in successfully running any business. My aim here is to briefly assess the debates on entrepreneurship and enterprise culture in the literature. It is essential for this study to start with examining the term of entrepreneurship in order to understand the small employer's capacity to become a real entrepreneur and its relevance to the case of OSTIM. As Goss argues (1991:47) there is no commonly agreed understanding as to precisely what characteristics and behaviours are indicative of entrepreneurial activity. In fact, various kinds of characteristics (Goffe and Scase 1987, Burns and Dewhurst 1989, Goss 1991, Cross and Payne 1991, Burrows and Curran 1991) are used to indicate entrepreneurial activity, such as high achievement motivation, individual success, commitment to innovation, leadership, the artisan identity, risk taking, confidence in one's ability to succeed, the desire for freedom and individual responsibility, energetic action towards self-advancement, pursuit of opportunity and commitment to opportunity.

As is very clear from the above, the notion of entrepreneurship is largely attributed to psychological characteristics of individuals as if entrepreneurial activity occurs in a vacuum. The study of entrepreneurship should also consider the wider socio-economic environment in which entrepreneurship takes place. Moreover, the extent to which socio-economic factors affect individuals' entrepreneurial capabilities in exploiting the opportunities in the market, might bring forth different results from one case to another. It is hence, sociologically important to explore to what extent small employers' entrepreneurial ambitions are constrained or blocked by socio-economic factors, such as the market relations that their business activities are engaged in.

Policies, both in developing and developed economies aim to promote the notion of entrepreneurship so as to help the creation of employment opportunities, by encouraging individuals towards setting up new businesses through self employment and small scale firms. In developed economies, governments espouse the idea of enterprise culture since 'government see them as providing solutions to the growing unemployment

problem and the persisting difficulties of managing and controlling labour in large-scale organisations. At the same time, the growth of entrepreneurship helps to foster ideologies of self-reliance so that national states can more easily withdraw from the provision of various social and welfare services and thereby reduce public expenditure' (Goffe and Scase 1987:4). It is argued that governments also support entrepreneurship in order to avoid problems within industrial relationships rising from large firms, such as poor work conditions, absenteeism or industrial conflict. (Rainnie 1989 and Burrows and Curran 1991).

The discourse of the enterprise culture has always been an essential part of new right policies. Pollert (1988) for example, argues that the discourse of enterprise culture presents itself as the justificatory language of social integration for a world characterised by an economic insecurity, unknown in the more corporatist and collectivist world of the 1960s and much of the 1970s. She claims that in terms of promoting the enterprise culture, the new right policies have aimed to stimulate individual economic activities and thus overcome the problem of rising unemployment.

However, key factors in forming the entrepreneurial personality are bound up with the condition of the labour market and the socio-economic formation of those involved in starting up new businesses. One should also consider the differences between the developing economies and developed economies in respect to the level of the industrialisation process in large firms, which might experience different ranges of trade unionism, technological levels and management control. Having accepted the constant pressure of unemployment on individuals to set up their own business both in developed and developing countries, there are those in developed economies who are 'technical and lower managerial staff and who are frequently frustrated because of the way in which their jobs are tightly monitored and controlled by others, ... business proprietorship has a special appeal... since they are free from the managerial control of others (Goffe and Scase 1987:5). However in developing countries such as Turkey, as dealt with in more detail later in this chapter, the small firms' market relations, employers' educational

level, technical skills and managerial knowledge are important factors in the context of labour market in constraining the entrepreneurial capability of people.

Individuals are coerced to 'choose' working in small firms due to failure to find a job in large scale firms in the formal sector. Unlike the case of developed economies, there is considerably less movement of employees from the formal sector to the informal sector. For example, in the sample, 86 per cent of OSTIM's small employers were originally former workers of the same business. Only 5 per cent of OSTIM's small employers had been white collar workers before they set up their own business. Thus, people who actually work in small firms have a great desire to work in large scale firms. People who work in large scale firms do not have any great desire to work on their own account since poor working conditions, lack of working capital, insufficient income and the chain of market relations already preclude many small firm owners from enjoying working on their own account. Not only does the condition of the labour market push individuals who lack educational and technical qualifications and the lack of income opportunities to work in small firms, but it also discourages those who work in the large scale firm in the formal sector from taking the risk to set up their own business.

Although it is important to point out the fact that 'the entrepreneur is known for doing more with less' (Howards *et al* 1989: 106), given the constraining factors on the profit margin such as restriction of market relations which negatively impinges on the growth of working capital, these greatly discourage risk taking and confidence in one's resource and ability to succeed. It is the case for example at OSTIM, that small employers have very little opportunity to be enterprising in a chain of market relations.

Entrepreneurship is assumed to be an outcome of choice. But at OSTIM small employers have ended up there trying to make a livelihood. It was not their intention to work on their own account and neither was it their motivation to achieve that brought them to where they are. Rather, it was their failure to find a niche in the formal sector. The majority of small employers insisted that they would prefer working for someone else because, they say, the work that they do puts enormous pressure on them.



**As one of the small employers pointed out:**

**I wish I was working for a big company. Because the business that we are engaged in is a matter of making a living. When you do badly you are not only losing money but also you endanger your livelihood. It puts a tremendous pressure and strain on us. We play a game which we simply cannot afford to lose.**

**Given the significance of commitment of individuals towards self-advancement and achievement in successfully running businesses, the conditions of the market make a considerable negative impact on entrepreneurs in achieving their objectives. In fact, OSTIM's small employers' entrepreneurial abilities end up with limited manoeuvrable-capability due to their firms' market positions. In addition to the lack of technical-engineering and managerial knowledge of a large proportion of small employers at OSTIM, the likelihood of their advancement is further restricted not solely by the economic environment in which their businesses are located but also by their lack of technical and educational qualifications.**

**In order to gauge the degree to which OSTIM's small employers characterise a certain form of entrepreneurship in running businesses, they were asked to report where they would like to invest if they had a sufficient amount of capital today. The aim of this question was not only to comprehend how committed small employers were to their own occupations but also to assess how they viewed other occupations.**

**As Table 4.14 below shows, except for those with 7-10 workers, who have more desire to invest in the same business, small employers are not very keen to invest in the same business. This tendency is higher among small employers with 1-3 workers since only 20 per cent of them stated that they wanted to invest in the same business. However, those who employ more workers and enjoy relatively easy access to subcontract work and raw materials, seem more determined to carry on working in the same business.**

**4.14**

**If You Had A Sufficient Amount of Capital, Where Would You Invest?**

A= Small employers who employ 1-3 workers    n= 20

B= Small employers who employ 4-6 workers    n= 46

C= Small employers who employ 7-10 workers    n= 34

	Investment in the same business	Buying & selling commerce & trade	Open a bank account	Others
A	20 %	55 %	15 %	10 %
B	41 %	39 %	11 %	9 %
C	65 %	20 %	9 %	6 %

As was explained in Chapter One, from the point of view of small employers who unwillingly entered this occupation and employ less than 7 workers, investment is a matter of making a living and hence they tend to wish to invest into the occupations which are easy to run and profitable enough to make a better living.

It is also interesting to note that these small employers with less than 7 workers would chose to invest in buying and selling if they had a certain amount of capital. It is partly because these activities, from the point of view of these small employers, run more independently, profitably and produce easy profit. Besides, as small employers have a wide range of daily and weekly trade and commerce relations with those who are engaged in buying and selling businesses, such as wholesale and retail trade, raw material dealers and new or second hand machinery dealers, they see the superiority of these traders' position over them. According to these small employers, these traders are not trapped into accepting bad working practices since they are free to buy and sell to anyone at any time. They believe that these tradesmen do not have to work very hard to make money.

As one of the small employers put it:

What those tradesmen do is wait for the customer in the shop, sell the goods when they come and do more stock when the sales go well.



They just sit in there and do the business cash in hand. That is it, what more could you ask. I really envy the wealth and the comfort of those tradesmen.

Another stated:

To be honest I covet those tradesmen's comfort and easiness. You know, we work very hard to make money but they don't... they usually rest all day but earn more money than we do. There is a saying around here 'it is not the person who produces things, makes the money, it is rather the person who sells them.' Undoubtedly, if I really had a certain amount of capital to invest, I would certainly set up a semi-wholesaler raw material shop.

Small employers at OSTIM consider that the work carried out by their businesses necessitates a great deal of skill, responsibility and care. Despite many difficulties that they face in running their businesses, and their envy of tradesmen such as those referred to above, a sizeable number of them regard their work practices as more creative and satisfactory in comparison to occupations in the service sector.

One of the small employers said that:

Even Sundays, I often come to the shop although I do not intend to work. I really like to see the work that my shop has completed over the week. It is very nice to see things that my shop has created. You know, there is a certain amount of raw material before you start working but it is metal, scrap, and virtually nothing if human hands do not touch it. As you start completing the work, you are not only finishing the work but you are creating things and converting a mass of metal sheet into something which gives me a great pleasure. We have a saying which shows our situation very well, "the man who produce things gets its reputation and the name of it, whilst the man who sells things makes profit through it [mali yapan sanını satan ise kârını alır].

Another reason for small employers' desire to be in the position of tradesmen is because they do not want to work very long hours. As will be explained in Chapter Five, almost all small employers complained about long working hours. Starting at 8-9 am and



finishing at 6-7 pm including Saturdays, small employers along with their own workers, work long hours. Small employers who employ less than 7 workers are especially desperate to work longer for increased profitability. Small employers with 1-3 workers said that they did not intend to change their production practices even if they had enough capital since their present method of production was appropriate for small orders from second and third dealers.

Thus, under present circumstances, small firms with 1-3 workers are less likely to have access to raw materials and subcontract work owing to their lack of educational, technical and managerial knowledge. Hence, a significant amount of investment for new machinery and equipment will not considerably improve firms' market positions which is also bound up with the owners' technical and engineering capabilities. Under these circumstances, small employers are aware of the fact that becoming a real entrepreneur in this business cannot overcome the difficulties of the market relations which small firms' business activities are subject to.

It is not only the external factors that prevent small employers from being enterprising but also the internal factors such as the level of workers' skill and the use of technology. Because of the limited degree of capital accumulation that small employers get through business activities, small employers have failed to make necessary investment for new technology. Thus, the use of rudimentary technology which means low productivity and efficiency in the production process, leads small employers to refrain from bidding for contract work at auction. Moreover, the scarcity of skilled workers precludes small employers from capturing some profitable subcontract work which might necessitate a highly skilled labour force such as spare parts for electrical and electronic equipment [computers, televisions, etc.]. As a result, internal factors constrain most of OSTIM's small employers' entrepreneurial attempts to capture the opportunities in the market.

In fact, the use of technology and the level of workers' skill play an important role for any capitalist firm in accomplishing greater division of labour in the production

process. Hence, it is essential to examine the extent to which small firms' division of labour differs at OSTIM in respect to the firm's production practices.

#### **d) Division of labour**

Most small firms at OSTIM have a limited division of labour in the production process. Workers, especially journeymen, carry out many functions. Assistant journeymen and apprentices usually help the journeyman to do work properly. At times, each worker is given different tasks to complete and any assistant journeymen or journeymen are capable of doing the same work on the shop floor. However, technical requirements at work are limited. In the workplace, skill is not a *sine qua non* in enhancing efficiency and productivity. As explained in Chapter Two, the foremost aim of small firms at OSTIM is to increase the profit margin as much as possible for their survival, the quality of the products being of secondary importance. The division of labour occurs among small employers, journeymen and assistant journeymen. Most skilled tasks are carried out by journeymen whilst simpler tasks are given to assistant journeymen and apprentices respectively. Nevertheless, it is also often the case that assistant journeymen and/or apprentices are also supposed to stand nearby small employers and journeymen so as to learn basic skills. Small employers usually work on the shop floor along with workers to ensure that the work is being carried out the way they want. However, the majority of small employers stop working around mid-afternoon in order to deal with business related matters such as doing paper work, making phone calls, arranging meetings with clients, visiting friends or talking to dealers. In the absence of small employers, the journeyman is in charge of the production process.

Experience makes journeymen more adept at various kind of jobs. This is the same for any assistant journeymen who can easily adapt to new tasks in a very short time when necessary. Since the majority of small firms do not use sophisticated technology in the production process, technical skills that are required on the shop floor are not very high. That is why only various kinds of basic, if not very simple, skills are needed for



tasks on the shop floor. In the production process, there is only a simple diversification and differentiation of work tasks on the shop floor which brings about a rather simple division of labour.

Technical division of labour is greater in small firms with 7-10 workers in comparison to smaller firms at OSTIM. Not only does technological superiority enhance small firms with 7-10 workers but also a relatively skilled labour force is employed in these firms. In contrast, smaller firms utilise rather rudimentary technology and a comparatively less skilled labour. In smaller firms, technical specialisation is mainly carried out by intensive use of labour force, and thus the technological disadvantages of greater specialisation are successfully substituted by an excessive use of their own labour. In this context, it can be argued that a certain but limited degree of specialisation in the production process is successfully achieved by most small firms through the intensive use of labour by individuals working hard at partial tasks, which are not themselves highly technical

Division of labour in managing the small firm also differs with respect to the size of a particular firm. Smaller firms' owners are generally involved in working till the late afternoon along with workers since the firms' operations do not significantly separate the tasks that require a division of labour. In small firms with 7-10 workers, however, small employers work, but not necessarily all day. Especially in the early-afternoon, they may give up working on jobs so that they can deal with business related matters in the office. All these kinds of work need greater attention and time from small employers since these larger small firms are involved in more business related matters than those with a smaller workforce. As they employ comparatively more workers, a kind of organisational division in managing the work place is made to overcome difficulties occurring in shop floor control.

In the absence of small employers, usually the most skilled, older and better qualified worker [that is usually the engineer and the journeyman] are in charge of the work place. In running a business, small employers have to sometimes leave the shop for



a time which generally lasts a few hours, and the engineer or the journeyman is left responsible for temporarily running the business, such as dealing with clients or answering the telephone. The technical superiority of the journeymen provides them with a kind of authority in managing assistant journeymen and apprentices on the shop floor.

There is no strong technical division of labour between journeymen and small employers at work. Both mainly do the same work on the shop floor since their technical ability and skill level are equal. Small employers, however, allow journeymen to participate in decision making about how to arrange the work place so as to increase productivity and efficiency. From the small employer's point of view, journeymen are not only those whose skills and experience are essential to the firm, but they are also good managers.

As one small employer indicated:

I do not only expect journeymen to do work very well, but also to direct assistant journeymen and apprentices accordingly. Moreover, a good journeyman should feel that he is responsible for caring for the machines and lathes as well. A good journeyman should make sure that other workers never feel my absence when I am away from the shop. Everything must carry on the way I expect whether I am here or not.

To sum up, small firms rely on an intensive use of labour. Small firms with 7-10 workers have a comparative technological superiority and a relatively skilled labour force which means there is a greater technical division of labour in the production process, whilst the majority of small firms which employ less than 7 workers utilise a low paid and less skilled labour force. The product specialisation and role differences with respect to workers' technical and skill levels, differ more in larger firms than smaller firms.

### **e) Employment relations**

Studies on small firms have paid little attention to employment relations. The role and position of workers have been relatively neglected since studies have mainly concentrated on small employers themselves. As Stanworth and Curran (1989: 158-159) stated, two stereotypes have dominated views on employment relations in the small firm. The first one views the small firm as a firm which is involved in exploiting the employee, providing poor conditions in return for low wages, long working hours, and sacking any worker who objects to these wages and conditions. The second stereotypical view is that the small firm is a firm which is conflict-free with a friendly social setting, close personal ties, better work satisfaction and less alienated work environment. One of the best formulation of such ideas was that of Bolton Report:

‘In many respects the small firm provides a better environment for the employee than is possible in most large firms. Although working conditions may sometimes be inferior, most people prefer to work in a small group where communications present fewer problems: the employee in the small firm can easily see the relation between what they are doing and the objectives and performance of the firm as a whole... In a small firm an employee normally may, if he wishes, speak to the owner himself. In a large firm problems of communication arise and some kind of organisation to represent employee’s interests is necessary... Where management is more direct and flexible, working rules can be varied to suit the individual... No doubt mainly as a result of this, the turnover of staff in small firms is very low and strikes and other kinds of industrial dispute are relatively infrequent’ (Bolton Report 1971:21).

In a similar vein, Schumacher (1973) who formulated the catch-phrase ‘small is beautiful’, also puts forward a rather romantic form of employment relations (Stanworth and Curran 1989) in a small firm where social relations are considered to create a more friendly, co-operative, and natural work environment for all.



The underlying implication of much of this literature is that the small firm provides harmonious working relationships compared to larger firms. In this respect, it is important to explore why there are a considerably less disputes in small firms, when compared with large firms. The arguments concerning a friendly work environment and more harmonious employment relations in the small firm have come under strong criticism (Sutcliffe and Kitay 1988, Stanworth and Curran 1989, Goss 1991). It has been suggested that employees in smaller firms might be more likely to be exploited and forced to receive more inferior working conditions. It has been claimed that although employment relations in small firms at first seem more stable and harmonious, there are certain conditions that disguise or alleviate the dispute between small employers and workers in small firms (Newby 1977a and 1977b , Curran and Burrows 1987: 169-170). Absenteeism, low wages, poor working conditions, labour turnover, lack of unionisation and the extent of exploitation are considered to be more prevalent among smaller firms in contemporary capitalist economies since the labour market situations and employers' selection practices are both largely beyond workers' control (Goss 1991:71). As a result, workers in smaller firms are more likely to have less skill, less training and work experience which significantly prevent them having access to the formal sector.

The forms of employment relations in small firms vary in accordance with diversity of economic activity (Newby 1977a and 1977b, Scase and Goffee 1982, Goss 1991). Newby (1977a), for example, in the case of agriculture, discusses a small employer strategy of 'paternalism' which relies on clearly defined hierarchical control and the differentiation of small employers from workers. Paternalism arises in situations where the employer's dependence upon labour is less pressing and where the position of workers is such as to limit their power to resist proprietorial prerogative (Goss 1991:76). Goss states that paternalism is only viable where workers are also heavily dependent upon an individual employer for jobs. In this context, Newby claims that workers feel that they can only improve their position by showing allegiance to their employers.



Paternalism is effective where the size of establishments is small and access of workers to other forms of employment opportunities and relevant organisations such as trade unions is limited and is argued by Scase and Goffee to be more likely to be found within owner-director enterprises (Scase and Goffee 1982:153-154). According to Newby (1977a) industrial conflicts in hierarchical enterprises are restricted by the conditions of labour markets, market relations and paternalistic moral values.

Another form of employer strategy is 'fraternalism'. This is more specifically examined by Scase and Goffee (1982) in a study of the building industry, where the conditions of the market are not stable. Unlike paternalism, which is a traditional form of authority resting on clearly defined rules and regulations, and which differentiates the roles of small employers and workers, fraternalism is effective where small employers depend heavily on workers whose skills are essential for the firms. Scase and Goffee describe how 'dependence of small employers upon "indispensable" workers, the nature of the work tasks and the unstable and competitive conditions of the market, compel the structuring of fraternalism between employers and employees...fraternalism represents the only feasible means by which these proprietors can control and manage labour'(Scase and Goffee 1982:116-117). Unlike paternalism, Scase and Goffee argue that in fraternalism hierarchical differentiation is largely absent as small employers apply a 'togetherness' strategy to control their own indispensable labour force.

Goss (1991:79) however, asserts that neither fraternalism nor paternalism could claim to be typical of small business managerial strategies. He explores 'benevolent autocracy' as an approach in analysing employment relations in instant print shops. In benevolent autarchy, according to Goss, there is a limited dependence of small employers upon workers and this allows small employers to stamp the employment relationship with their personal authority, but this is a function simply of their personal power rather than as a result of an elaborate web of paternalistic relations (Goss 1991:79). Nevertheless, Goss argues that workers are neither independently in a position

to demand fraternal treatment, nor are they dependently compelled to endure crude economic coercion.

As far as the case of the Third World is concerned, debates do not greatly differ since arguments stress both negative and positive features of employment relations in the small firm. For example, the ILO (1973) holds a view similar to that of Bolton Report (1971). In a similar vein, Schumachers' notion of 'small is beautiful' refers to both the case of small firms in developing and developed countries. Piore and Sabel (1984:113-114) assert that industrial disputes in large firms are chiefly the result of the mass production model of shop floor control, which is also known as 'Taylorist Scientific Management'. They suggest that the form of industrial relations between management and workers are more harmonious in the craft model of shop floor control where 'industrial democracy is achieved through the close collaboration of craftsmen and union officials with management in the organisation of production' (Piore and Sabel 1984:115). The underlying implication of this argument is that the craft model of shop floor control ensures a harmonised relationship between employers [craft-artisans] and workers.

I will now turn to examine the findings covered in this survey of employment relations between small employers and workers at OSTIM. One of the findings is that relations between small employers and workers differ in accordance with the position of workers in respect to their experience, grade and skill. Small employers at OSTIM seemed to use fraternalistic behaviours as described by Scase and Goffee, especially towards journeymen, whilst they showed paternalistic approaches as stated by Newby (1977a) to assistant journeymen, and particularly to apprentices. However, small employers' paternalistic behaviours towards assistant journeymen and apprentices are always in line with cultural and traditional forms and style of language. For example, small employers tend to use phrases towards younger workers such as 'my son', 'my nephew', 'little one' [oglum, yegenim, ufaklık]. These phrases allow small employers to control the work place through informally based authority. It also enables small



employers to create a friendly work environment by using traditional cultural values towards workers. Younger workers on the other hand, feel that owners treat them the way their father or uncle might, and this gives them a sense of familial duties and obligations. Younger workers call the owners and journeymen 'master' and/or 'elder brother' [in Turkish 'usta' or 'agabey '] which assures the small employers and journeymen that younger workers admit the authority of small employers by using the same kinds of phrases.

Small employers, however, are more careful in the way they treat journeymen especially those whose skills and experiences are vital to the firm. Small employers try to show that journeymen have more privilege and immunity. In order to indicate this, they always ask journeymen to join them when they have a break for tea, whilst assistant journeymen and apprentices are often excluded. In the production process, small employers work along with journeymen to carry out specific tasks and ask assistant journeymen and apprentices to stand nearby to help them completing the work so that small employers and journeymen can simultaneously and *equally*, enjoy the same privileged position. Sometimes, small employers try to treat journeymen as their work mates, which ensures that indispensable workers, as stated by Scase and Goffee (1982), are preserved by creating fraternal relations. For both small employers and journeymen, it means that the relationship between them is not hierarchically established and the journeyman feels that he has a kind of privilege over other workers. Small employers are always intent on showing that there is a certain degree of equality between themselves and journeymen. However, it does not necessarily mean that journeymen are fully involved in the decision making processes of the firm.

Although a form of exchange of ideas frequently takes place between small employers and journeymen in the production process of how to do work, it is usually small employers who deal with business related matters such as the problem of getting subcontract work, doing paper work, purchasing raw materials and making various kinds of payments such as wages, rent, bills for electricity and telephone. Thus, it is right to



argue that the decision making process is largely being carried out by the small employers. The disputes between small employers and journeymen are settled within the firm since both sides are aware of the fact it is beneficial to either side, partly because market conditions do not provide better employment opportunities for workers if they try to find another job. At the same time, small employers are not in a position to easily recruit a labour force that is essential to them.

As to determination of the level of wages, small employers firstly tend to consider market rates for wages of apprentices, assistant journeymen and journeymen. Some of the biggest disputes arise between workers and small employers at the time of wage negotiations. In fact, at OSTIM, workers, regardless of their technical skill levels, ages and position in the shop floor, have very little control over the wage determination process. The decision making process for wage determination is largely affected not only by internal factors such as the firm's financial position, the importance of workers' skills to the firm and the firm's capacity utilisation, but also by external factors such as the firm's market position, the actual level of wages in the estate and absence of unionisation, etc. The flow of surplus labour from rural areas to urban areas and a high rate of population growth in the cities have continuously pushed a sizeable proportion of the labour force into small scale activities in general, industrial estates in particular. As a result, a rise in the actual income of workers in estates has always been threatened by the new-comers. Small employers hence, have the benefit of using a relatively skilled labour force, especially the journeymen, in return for low wages. In this context, it is right to suggest that cheap labour has always been an important source of small firms' survival at OSTIM. At the time of wage determination, small employers often use the availability of cheap labour in the estate's labour market as a threat to their own workers.

In response to the small employers' strategy to keep wages down, workers do not have much choice since they can either leave work, which is not a positive option, or accept the offer made by the small employers, with a little improvement. Yet, none of the small employers reported that they made a promise to their employees to provide any

kind of promotion or bonus to increase the pace of work. Workers, for their part, do not make any claim for promotions and bonuses, which are considered to have lesser importance, as workers prefer to press more on small employers towards improving working conditions such as pay, health and safety at work and social security. However, as explored earlier, as workers are not in a position to press for better work arrangements, small employers do not regard disputes about wages as a major problem. As explained in Chapter Two, only 6 per cent of small employers reported disputes with workers as one of their major problems.

At OSTIM, labour turnover is quite high. Small employers consider almost all workers to be replaceable and hence where there is a dispute taking place this is the card that small employers love to play. The workers are forced to accept the conditions that they do not like. Sometimes a journeyman, whose skills are essential for the firm and who thus enjoy some privileges, such as better payment and some influence over decision making in the production process, plays a kind of intermediary role in solving disputes. In this context, the irony is that both small employers and workers expect journeymen to favour their side. When these journeymen were asked to report whether they wish to favour small employers or workers, they stated that they felt more sympathy towards workers because they were also a part of the workforce. However, they said that workers must realise the fact that it is a process of learning how to endure hardship at work and that it is never easy to trace the course of training from apprenticeship to journeymanhood. Journeymen tend to assume that they are neither completely on the side of assistant journeymen and apprentices nor are they on the side of small employers.

As one of the journeymen pointed out:

I do not entirely regard myself as one of those younger workers any more since I got the journeymanhood certificate. Nor do I consider myself as the boss because I am treated better than younger workers. The boss behaves towards me well because he needs to keep me working here. I know that nothing can make me a boss here unless I am the owner of the shop. However, the fact is that journeymanhood is the threshold of



becoming a small employer which is the reason why we endure such bad working conditions.

Small employers like to make out that the firm is not doing well. Although workers realise how much work they do at any time, small employers enjoy pretending to have failed to get payments from clients. Small employers press workers to consider the fact that their wages and even work prospects are heavily dependent on the firm's financial position. At the same time, workers want small employers to realise the fact that if they do not pay reasonable wages to them, they should not expect them to work well. The way workers see it, the priority should therefore be given to better payment so that the firm can work more efficiently and productively since it is they who do the work. From the small employers' point of view, without having a consolidated financial situation, it is not feasible to make higher payment to workers. According to small employers, it will even worsen the financial situation of the firm which is already vulnerable due to lack of working capital.

Employment relations differ with the size of the firm. Nevertheless, the actual income of the workers, which has an important impact on employment relations in small firms, does not greatly vary from one firm to another. The firms with 7-10 workers covered in this survey also use cheap labour in the estate. Except for some of the skilled journeymen, technicians with a technical college certificate and engineers who earn more than most of the workers at the estate, the level of wages generally remains low at OSTIM. Workers do not always blame the small employers for the low pay since they are also aware of the fact that it is the form of the labour market that holds the wages down. They believe that they are dispensable for the small firms as other workers are always ready to take their jobs. Small employers are aware of the fact that workers are unable to work elsewhere, such as in the public sector. Workers unwillingly accept the conditions of work, as they have failed to find a job in the formal sector. The leverage of workers to drive a hard bargain is constantly weakened by other workers who are seeking employment.



There is an absence of unionisation of workers at OSTIM. It is also the fact that small firms are not actually in a position to provide better conditions. That is why small employers are very hostile to any kind of unionisation of workers which is considered to be a big threat to their own business activity and thus, their livelihood. Workers do not push themselves to unionise very much, because almost all workers believe that they will try to set up their own business in the future whether they have a sufficient capital to do it or not. There is a strong desire among workers that they will work for themselves, not for others. In that case, according to workers, to fight to get something for themselves through unionisation in a place where they will have given up working in the near future is not worth trying.

Workers believe that working for small firms is a process to be endured for a while, rather than a process of making a living for the rest of their life. They feel that they do not have to work in small firms, as they will set up their own businesses, and therefore, they are not tied to each other. They are disinclined to protect themselves through unionisation against negative conditions of the work in the small firm. In addition, workers in small firms are very dispersed and isolated so it is rather difficult for the workers to get together for unionisation. Since workers spend a large amount of time at work, from 8-9 am to 6-8 pm, there is in fact very little spare time left to meet after work.

At OSTIM, small firms with more than 7 workers have negative attitudes towards unionism, which is regarded as the main threat to the use of cheap labour in the estate. Workers in these firms are subject to more formal work and wage arrangements in contrast to workers in smaller firms. The distance between small employers and workers is greater in the larger of the small firms due to these firms' relatively more advanced division of labour, both in the form of management and the production process. Employers of these firms are less likely to spend time working on the shop floor since the firms' business related matters require a considerable amount of time. In this context, engineers and journeymen who are skilled and experienced, are required to be in charge

of the workers on the shop floor. Therefore, the relationship between small employers and workers becomes more formalised and the distance enlarges. The most qualified journeymen and engineers have a more direct relationship both with the small employers and workers. As division of labour in the production process is rather less-developed in small firms with less than 7 workers, face to face relations between small employers and workers prevail through daily working practices. The informality of relationships in these small firms is widened further since small employers can successfully convert certain elements of the traditional culture into management forms.

All in all, employment relations at OSTIM comprise of both paternalistic and fraternalistic features. In a particular small firm these two features can co-exist. Employment relations at OSTIM's small firms have three main features. Firstly, small employers tend to create fraternalistic relations with journeymen whose skills are essential to the firm whilst they use paternalistic approaches towards younger workers whose skills have secondary importance and are more easily replaceable. Second, the relationship between small employers and workers differs in respect to size of firm. The owners of small firms with 7-10 workers spend more time at the office and thus face-to-face relations occur only with journeymen. In very small firms, however, small employers have direct face-to-face relations with all workers, since they are largely involved in the production process. Therefore, relationships between small employers and workers in small firms with 7-10 workers becomes more formalised and hierarchically established in comparison to small firms with less than 7 workers. Finally, the condition of the labour market keeps the level of wages down and underpins the small firms' survival, since absence of unionisation and abundance of labour force at the estate coerce workers to accept poor working conditions. Hence, workers are more driven to set up their own business rather than to unionise as they believe that they can only improve their livelihood through working on their own account.



#### **f) Small employers as a social class category**

Social class characterisations of small employers have been dominated by theoretical approaches which analyse the *de facto* class position of small employers in terms of the form of ownership of the means of production, small employers' employment status, relations of control in the production process and the position of small capital within capitalist relations.

Bechhofer and his colleagues who studied small employers in Britain (Bechhofer 1974, Bechhofer and Elliott 1977, 1981 and 1985), regard the owners of small capital as detached from the main classes of contemporary capitalism. They argue that in terms of objective conditions and normative commitments the petite bourgeoisie was indeed distinct and somewhat estranged socially and ideologically from both capital and labour (Bechhofer and Elliott 1985:183-84). Bechhofer and Elliott use rather descriptive elements in defining the socio-economic characteristics of people who are engaged in small scale economic activities and call them '*the petite bourgeoisie*'. They describe them in terms of capital, technology and the structure of organisation that they possess. Bechhofer and Elliott (1976: 76-77) state that this stratum has a small measure of capital, uses a relatively low technology and has a low social technology which is based on simple organisation and a small labour force. Nevertheless, according to Bechhofer and Elliott, ideologically owners of small capital not only play an important role in the formation of conceptions of property relations but also provide an image of competitive capitalism, individualism and opportunity.

Bechhofer and his colleagues hold that economically, the petite bourgeoisie is seen by governments as an important source of countries' economic growth as they create new jobs and employment opportunities. Politically, Bechhofer and colleagues claim that the petite bourgeoisie provide a form of rejustification of capitalist values. Despite the many difficulties that the petite bourgeoisie face today Bechhofer and Elliott (1977:99) assert that as a distinct stratum petite capitalism will continue to remain as a marginal but a noticeable part of capitalist societies. They argue that the structure of this



stratum has changed in relation to changes in the contemporary industrial society. According to Bechhofer and Elliott (1976: 81), in Britain, 'the economic expansion of the craftsman declined but opportunities for commercial activities greatly increased....the occupations of the petite bourgeoisie became more exclusively concerned with the specific skills, more involved with customers and less involved with the craft...even in economies dominated by large corporations, petite bourgeois businesses continue to provide jobs for a substantial proportion of the population' (Bechhofer and Elliott (1985:181).

On the definition of the petite bourgeoisie, Bechhofer and Elliott's approach concentrates too much on the occupational base which was bound up more with the economic settings within which the petite bourgeoisie operates. Gerry and Birkbeck (1981: 123-124) for example, criticise Bechhofer and Elliott's definition of the petite bourgeoisie and question how we identify the class boundaries between, for example the economically powerful capitalist who uses a relatively low level of technology and the small capitalist who employs expensive, technically advanced means of production.

The Marxist interpretation of small scale employers focuses more on the persistence of small firms in relation to the capitalist mode of production. Marx for example, considered the petty bourgeoisie as the legacy of a pre-capitalist form of production which continues to last within contemporary capitalist society. However, Marx asserted that in the long term, the petty bourgeoisie would come under strong pressure from the development of larger capital. The growth of modern industry would increasingly minimise the opportunity for workers to become independent small firm owners since larger capital would dominate the pre-capitalist simple commodity production. Marx (1952: 423) argued that:

'The lower strata of the middle-class-small trades people, shopkeepers and retired tradesmen generally, the handicraftsmen and peasants... sink gradually into the proletariat, partly because their diminutive capital does not suffice for the scale on which Modern Industry is carried on, and is swamped in the competition with the large capitalist,

partly because their specialised skill is rendered worthless by new methods of production.'

Likewise, Szymanski (1983: 163) argues that after the monopolisation of capitalism most artisans and small farmers have dramatically declined. According to Szymanski, (1983: 164-165) the radical transformation brought by capitalism changed the majority of the middle classes, the majority of whom have shifted from the independent small businesses to the new middle class. Similarly, Braverman (1974: 431-445) for example, claims that the self-employed craftsman, the farmer who owns a small holding and the independent professional in private practice, are steadily disappearing and entering the ranks of wage earning and salaried employees under monopoly capitalism.

Contemporary Marxists such as Poulantzas and Wright who consider the petty bourgeoisie as a class, examine the form of petty commodity production and their socio-economic position in capitalist economies. As far as Poulantzas is concerned, the petty bourgeoisie does not belong to the capitalist mode of production, but to the simple commodity production which was historically the form of transition from the feudal to the capitalist mode (Poulantzas 1979: 285-286). To Poulantzas, the traditional petty bourgeoisie neither belongs to the bourgeoisie nor to the working class, since it does not exploit or at least is not chiefly involved in exploiting wage labour. In that case, to Poulantzas, the traditional petty bourgeoisie refers to those who are self employed and thus employ no wage labour. In this context, Poulantzas characterises the traditional petty bourgeoisie in terms of ownership of capital, control over the production process but non-employment of wage labour.

Poulantzas also, describes a group 'the new petty bourgeoisie' which consists of managers, technicians and white collar workers. To Poulantzas, the new petty bourgeoisie has some control over the production process and do unproductive labour. In comparison to the proletariat, he asserts that they are not directly exploited and thus stay outside the relationship between labour and capital (Poulantzas 1979:207). He maintains



that ideologically, politically and economically, new and old petty bourgeoisie both form a part of the same class, that is the petty bourgeoisie, since he argues that they both have the same ideological attitudes; reformism, individualism and power fetishism.

Wright, by contrast, sets his theory of social class in terms of control over economic resources in the production process, and on their basis identifies major classes in modern capitalist societies. According to Wright (1978 and 1985) there exist three forms of control in the production process (i) control over investments or working capital [money capital] (ii) control over the physical means of production [land, factories, machines, offices] and (iii) control over labour power. Wright considers the members of the petty bourgeoisie as those who have complete economic ownership of the means of production and complete control over the allocation of their resources but who have little or no control over labour power. A contradictory class location between the petty bourgeoisie and the bourgeoisie arises since there are small employers who, like the capitalist class, enjoy economic ownership and control over the physical means of production, and unlike the petty bourgeoisie have a minimal control over the labour power of others. But, unlike the capitalist class, they are themselves engaged in production with employees. Therefore, according to Wright, members of small employers coincidentally occupy two class positions within social relations of production, which is 'contradictory'. Although as Scase (1982: 154) puts forward, this implies that small employers are partially integrated within the capitalist mode in a manner in which the traditional petty bourgeoisie are not, Wright does not elaborate upon this.

For Scase and Goffee (1982:23-26) there exist four distinct types of the entrepreneurial middle class on the basis of differences in the relative mix of capital utilised and labour employed. They assert that different mixes of labour and capital are bound up with the nature of the proprietors' functional contribution to their enterprises. They divide these different roles into four sub-categories;



‘first, there are the *self employed* who *formally* employ no labour and are generally dependent upon the unpaid services of their families and the utilisation of domestic assets for business purposes.... Secondly, there are *small employers* who work alongside their employees and perform administrative and managerial tasks. They both labour and *own* their means of production and yet at the same time employ wage labour. By *directly* involving in the production process, small employers personally contribute to the creation of profit.... Thirdly, there are the *owner-controllers* who do not work alongside their employees but, instead, they are singularly and solely responsible for the administration and management of their business.... And finally, there are *owner-directors* who control enterprises within which there are managerial structure because the scale of business activities is such that the owners are no longer able to *personally* perform all the function of supervision and control’ (Scase and Goffee 1982:23-26 emphasis in original).

As can be clearly seen from the above, various types of small firms are defined in accordance with the particular form of employment, management and owners’ position in the production process. In contrast, studies of small firms in developing economies have focused more on the relationship between the small firm sector of the economy and the dominant capitalist sector. Moser (1978) for example asserts that in a given economy, more than one mode of production can be found. She goes on to argue that with the transformation of the dominant mode of production, the other modes adapt to changes and lose their identity and independence to some degree. In this context, according to Moser, the petty commodity production is closely related to the operation of the capitalist mode of production with its transformation commanded by, and connected to the capitalist mode. She claims that petty production is dependent on capitalism while at the same time the capitalist mode of production benefits from the existence and relative viability of petty production for the maintenance of a low level of subsistence, and a low cost of labour production (Moser 1978: 1060). However, in Moser’s arguments, as various kinds of small scale economic activities are regarded to form the petty commodity production, differences among small scale economic activities and their variants in relation to the dominant capitalist production remain to be resolved.

Likewise, Gerry (1987: 117) holds that petty commodity production is seen as being just as much the product of the contradiction between capital and labour. However, Gerry (Gerry and Birkbeck 1981: 141-153) later on claims that petty commodity production was and remains intimately linked to the development of capitalism, and those who are involved in petty commodity production, are divided into three groups; self employed workers, direct wage workers and disguised wage workers. In this context, according to Gerry and Birkbeck (1981) wide ranges of economic activities in petty commodity production contain different relations and forms of production in which a worker is involved in at least one of three strategic variables given below;

‘the self employed worker, for example is defined as the owner of his means of production , as having control over the productive process, and as being the sole appropriator of the surplus generated by the enterprise. In contrast, the wage labourer exhibits exactly the opposite characteristics. There are many workers, however, who work under apparently different and *intermediate* relations of production....if a person’s job combines elements of both the classical bourgeois and proletarian (such as that of the manager and foreman) then the corresponding ideology is also likely to contain a corresponding and probably asymmetrical combination of those elements.(Gerry and Birkbeck 1981: 136 and 143)’.

In short, in a Third World context, Gerry and Birkbeck’ claim is the confirmation for Wright’s approach of ‘contradictory class location’, since many small enterprises’ workers are seen to be defined in terms of different relations of production.

Having briefly re-visited the literature on the position of small employers in the class system, it is important to point out that in the literature, small employers’ class location has necessarily been treated in a rather general way, whereas there are a wide range of small scale economic activities and thus large numbers of small employers engaged in various branches of the informal economy. More precise location of small employers in the social structure also requires taking into account socio-economic



origins, the condition of the labour market, the owner's position in the production process and the activities that their firms are involved in.

All small employers at OSTIM employ relatively few workers. However, the level of technology in the production process varies in accordance with the size of a particular firm and small employers' socio-economic background. It is also evident that division of labour increases with regard to how large the size of a particular firm is. In fact, larger firms experience greater division of labour than smaller ones due to the use of relatively modern technology in the production process, the size of labour force and the amount of subcontract work undertaken.

In general, all small employers are more or less engaged in using their own labour in the production process but small employers who employ 7-10 workers are mainly involved in duties related to business such as paper work, and dealing with various kinds of payment problems. Small employers who employ less than 7 workers are more subject to the production process, since these small firms use relatively rudimentary technology and usually work to low capacity. Comparatively, these small firms with less than 7 workers rely on a small amount of capital accumulation and thus it is essential for small employers to be involved in the production process so as to reduce the cost of labour and thus increase the profit margin.

As a result, small employers who run smaller firms, are more actively involved with day-to-day control over labour and physical means of production, as compared to those who run the largest of the small firms. It is partly because small employers who employ relatively more workers allow the engineer and/or journeyman to take day-to-day control over the labour force and the physical means of production so that they can be more easily involved more with business matters in the office.

Even though small employers at OSTIM apparently run their independent businesses, external factors such as larger capital outside the estate, and the subcontracting system, have a considerable impact on their firms' operation. For



example, the contractor company that gives subcontract work to smaller firms, indirectly controls the production process of small firms at the estate. Smaller firms are threatened by these contractor firms who can halt subcontract work in the future if smaller firms fail to achieve the contractor firms' quality standard. As explained in Chapter Two, it is often the case that a manager or engineer of the contractor firm will visit small firms to check products are being made properly. It is, however, impossible for the contractor company to keep one of its most skilled managers or engineers on a small firm's shop floor all the time, since it needs its most skilled labour force to carry out important tasks on its own shop floor. In this respect, it is right to argue that small employers and contractor firms at OSTIM have partial control over small firms' production process. Small employers to some extent have the autonomy to control their own production process but external factors such as contractor firms, have a considerable influence on smaller firms' control over the production process along with the massive impact of prices and thus profit margins.

As for small employers' assessment of their position, they tend to compare their socio-economic status more with non-urban occupations than with urban ones, which might indicate the small employers' sympathy towards their socio-economic background. When small employers were asked to value the socio-economic status of the occupation that they are involved in and other occupations, they place themselves along with peasants on the bottom of the pyramid. They stated that it was the peasant and small employers who work very hard in return for almost nothing. As to urban occupations, they believe that most of white collar workers such as teachers, police, or technicians, are in better occupations than small employers and peasants in terms of prestige, status, social security and respect. They place themselves somewhere between the peasant occupations and white collar occupations.

As far as the working class occupations are concerned, small employers tend to make a distinction between workers who are employed in large public and private firms and workers who are employed in informal economic activities. They consider their

occupation more prestigious than many occupations of the informal sector but they consider some occupations in the service sector, especially in commerce and trade, to be the ones that are quite profitable. Nevertheless, they downgrade their occupation in comparison to the occupations of industrial workers in large public and private firms which to a great extent provide more job security, higher income and better working conditions. However, small employers who run larger firms with 7-10 workers, regard their occupation as better than occupations of general white collar and industrial workers in large public and private firms.

**Table 4.15**  
**Which Occupational Group Do You Think Has Been Worse Off In The Last 10 years? n= 100**

Peasants	52 %
Industrial workers	5 %
White collar workers	3 %
Small employers	40 %

Small employers were asked to report which occupational group they think has been worse off in the last 10 years. As can be clearly seen from Table 4.15, 52 per cent of both rural and urban born small employers consider that the peasants have been the most disadvantaged in the last 10 years. Small employers, nevertheless, put themselves in a second worst position after the peasants. They also believe that occupations that industrial workers and white collar workers are involved in, have done much better than small employers and the peasants. However, this does not necessarily mean that those urban based occupations have experienced a prosperous decade in comparison the other non-urban and informal sector occupations. It is rather those occupations that have been able to keep the security of being protected in the formal sector which have prospered.

During conversations with small employers, they often pointed out that a small employer might earn more than a white collar worker but they said that possessing a



refuge in the formal sector of the economy should not be gauged in terms of income but the degree of security. According to most small employers at OSTIM, the advantage of working in the formal sector is enormous since it provides a life-time income with job security, pension, regular holidays, and benefiting freely from various public services such as public hospitals. In this respect, small employers regard themselves, along with peasants, as those who lack stable income and work security that the formal sector's employees enjoy.

As to the ideology of OSTIM's small employers, it is evident that they are less likely to favour conservative values as they increasingly hold rather moderate or radical Islamic views, which in many respects contrast considerably to capitalist norms. For instance, these small employers do not get credits and loans from banks or borrowings from usurers at any expense since it is forbidden by Islam. In case of financial difficulties, these small employers look for assistance from friends and relatives in foreign currencies. This is because any kind of interest is prohibited to all Muslims by the *Koran*. Borrowing and loans in foreign currencies from friends fulfils two functions; that is, the value of the money is protected against high inflation and no interest is paid:

Any kind of interest is prohibited by Koran so I do not do it. Because it is sin, if I do it. When I am in a financial trouble, I ask my friends around here to ask whether they can help me or not. At OSTIM, we always help each other in foreign currencies so that neither of us loose money against the high inflation.

In this respect, solidarity and unity among these small employers dominate the relations vis-a-vis what is supposedly claimed to be individualism and conservatism as the ideology of small employers. According to a number of social scientists such as Bechhofer and Elliott, petite bourgeoisie are those who are mainly against collectivism and favour capitalist values. The political and ideological attitudes of OSTIM's small employers, in contrast, seemed less likely to favour conservative values. Small employers seem to hold relatively strong and radical beliefs against the system which has let them down. Radical Islamic values are gaining ground, especially among small



employers as they feel that capitalist relations have mostly been destructive towards the economic activities that they rely on.

In fact, during the field-work, I observed that the majority of small employers subscribed to the daily newspapers Türkiye and Milli Gazete, very well known as [moderate] advocates of Islamic values in Turkey. Islamic ideology gives a means of protection for these small employers against the difficulties which have resulted in dominance of power in the hands of large capitalists. A sense of unity and togetherness among themselves ensures the future of their livelihood and they believe that Islam has the dignity and the power to shield poor people. According to small employers, the state is the guardian of large firms. Small employers' occupational associations are simply a toy of large firms which even strengthen the large firms' domination:

I do not rely on the state which always favours the rich. I do not believe in the importance of any kind of institutions and organisation in supporting small employers either. I have not seen any benefit from them since I have been in this business. Why should I support them. I am a Muslim and rely on myself and those who share the same view as they have fear of Allah not to commit a sin. But this fear is made by the God's love and adoration to create a just society.

To hold an Islamic view does not necessarily mean being completely opposed to the capitalist system and its norms. For example, small employers who have a tendency towards moderate-to-radical Islamic values, would not like to see the right of private property threatened by the radical movements with which they sympathise. In other words, as Bechoffer and Elliott (1976: 92) stated, property is always seen as central to the petit bourgeois ideology. In this aspect, it is right to suggest that small employers are usually against the socialist forms of collectivism that they consider as a threat to their own property. However, moderate-to-radical Islamic movements hold the view that they are not against private property. Thus, unlike socialist ideology, Islamic movements are in a position to gain sympathy among small employers since they acknowledge various forms of capitalist norms in line with Islam.

Islamic norms and values are means rather than ends for small employers to strengthen their struggle for survival in the urban context. As mentioned in Chapters One and Two, one of the most important aims of Turkey's urban migrants is to improve their living standards through informal economic activities. The rationale behind the choice of those who work in the industrial estate, is of acquiring technical skills so as to earn sufficient money to improve their standard of living. OSTIM's small employers represent a significant part of the population's survival struggle. They do not identify themselves as rural nor urban.

As one small employer said:

I am neither peasant nor townsman. I am somewhere between these two. I do not have a complete feeling of belonging to either side.

However, they have the desire to be a member of the urban socio-economic groups. For them, it is very important to send their children, especially their sons, to private college, thus ensuring that at least their son will easily achieve what his father has tried to achieve in such a long time. It will also ensure that the second generation, if not the first, will be more successful in belonging to urban socio-economic groups in terms of the occupations, income and the living standards they will acquire.

Small employers were asked to report what they would like their children to do in the future. In general, small employers wish their children to be involved in urban based occupations. Of the small employers 45 per cent want their children to carry on their businesses, whilst 32 per cent want their children to go into technical and engineering occupations. Only 18 per cent of small employers prefer white collar occupations for their children. It is important to point out that those small employers who want their children to carry on their business after them, are very determined to send their sons to a technical college and if possible to a technical university and then take over the business. It is also clear that small employers suggest mainly secure, well paid and well qualified occupations for their children. This is what small employers have failed to achieve due to their lack of educational and technical qualifications.



However, there is a significant difference with respect to small employers' origins in what they wish their children to do in the future. As Table 4.16 clearly shows, small employers with urban origins have more desire for their children to take over the father's business. It should be borne in mind that it is the son rather than the daughter who it is hoped will take over, for daughter are not so thought of in Turkey.

**Table 4.16**  
**What Would You Like Your Children to Do in The Future? n= 100**  
A= Small employers with rural origins n= 64  
B= Small employers with urban origins n= 36

	Same occupation	White collar workers	Technical-engineering occupations	Others
A	34 %	23 %	38 %	5 %
B	64 %	8 %	22 %	6 %

According to Table 4.16, whilst 38 per cent of the rural-born small employers would like their children to do technical-engineering work, 64 per cent of the urban-born small employers have a clear preference for the same occupation for their children. Nevertheless, 34 per cent of rural-born small employers also consider their father's occupation as an important option for their children and one quarter of rural-born small employers wish their children to be involved in white collar occupations. A large proportion of urban-born small employers do not regard white collar occupations as an option for their children since they believe their sons will do much better in the same occupation. In this respect, according to the urban born small employers, not only will their sons take possession of their fathers' businesses, but will also be supplied with adequate resources, the appropriate technology and labour force, established clients, and a reasonable amount of working capital.

It is evident that almost all small employers had set up their own business by themselves. Only 12 per cent of small employers reported that they had followed in their fathers' businesses. These are mainly those who represent the second generation of the



rural migrants. Nevertheless, the likelihood is that second and third generations of rural migrants will choose their fathers' occupations, since OSTIM's small employers have relatively more desire for their children to carry on the same occupations. Almost all small employers who have sons, said they have sent or would send their children to the technical collage and then if possible to the technical university to study engineering. It shows that small employers want their children to be engaged in technical-engineering occupations whether in the fathers' occupations or not. Although 37 per cent of small employers consider the future of their own businesses as bad and 32 per cent as moderate they believe that their sons with a technical and engineering superiority, along with the readily-inherited resources of the fathers' businesses, will earn a fair income. To small employers it is all about upward social mobility, geared to the next generation.

In short, the small employers in this study mirror a significant part of people's struggle to make a livelihood in the urban context. A transition of numbers of people from the rural economy to an urban one and then a battle of survival in the urban informal economy have constituted the socio-economic characteristics of the small employers' world, one which is mainly dominated by the norms of unity, solidarity, antipathy towards big business and sympathy for Islam. Nevertheless, to them, certain capitalist forms, which are in line with Islam such as the right of private property, to own a business, to make a profit should continue.

### **4.3 Conclusion**

This chapter has focused upon the relations of small firms to the wider social, economic and political environment in which small employers make their livelihood. In particular, it has examined the extent to which small firms have a growth potential, particular employment relations, and a distinctive division of labour in the context of market relations.

In general, small firms play an important role in the Turkish economy in terms of the number of people employed, number of establishments, in-put, out-put and value added. In addition, small firms have even greater importance in providing employment opportunities for the people who have failed to find a refuge in the formal sector of the economy.

As to employment relations and the division of labour, the experience of small firms differs considerably in respect to size of small firms. When the size of the firm expands, division of labour increases. For example, small firms with 7-10 workers utilise relatively modern technology with more capacity of power [HP] and employ a skilled labour force, including engineers. In this respect, not only are production specialisation and division of labour found to be more enhanced among small firms with 7-10 workers but also the form of management becomes more separated. In this context, small employers are left with more office work and dealing with administrative and managerial matters whilst in the production process the engineer or a journeymen is held to carry out supervisory control over other workers. When the size of a particular firm decreases, the division of labour and product-specialisation decline, with respect to a lesser amount of subcontract work, machine capacity [HP] and labour force. In this case, small employers are very often if not completely involved in the production process along with workers, and management is more directly carried out by the small employer himself.

OSTIM's small employers on the other hand, were not found to be what some would appear to idealise as *bona fide* entrepreneurs since the majority of small employers, who lack educational and technical qualifications, run their businesses in an environment which greatly limits their capability to be enterprising. Although, as argued, entrepreneurship is bound up with individual success, pursuit of opportunity, commitment towards high achievement and confidence in one's ability to succeed, given the difficulties that many small employers face, such as having access to contract work directly from the first dealer, they are actually left with very little room for manoeuvre and little opportunity to be enterprising.

In fact, OSTIM's small employers are trapped into running businesses which greatly constrain them from breaking the barriers of the chain of market relations. In this respect, sociologists who study the concept of entrepreneurship which is, in a sense, attributed to particular psychological characteristics of individuals in running businesses, should also take into account various social and economic factors which might negatively or positively affect the entrepreneurs' capabilities in exploiting opportunities in the market.

As a social group, small employers regard themselves as those who work hard but attain little. They consider the economic activities of their businesses to be very closely linked to dominant capitalist relations. However, as a occupational group, small employers do not see themselves as close towards the new middle class. They perceive themselves as a group who work as hard as peasants and are insecure workers of the urban informal sector, whilst gaining a small amount of income to rely on.

They consider job security, actual income, status and prestige to be important factors to assess the socio-economic grade of an occupation. In this context, not only is white collar work positively regarded, but also the industrial workers in the formal sector in as much as they have better job security, high prestige and stable, if not very high income. Although they believe that a small employer can earn more than a white collar employee or an industrial worker, they prefer the job security above anything else.

At OSTIM, although small employers have been successful in making a living in the urban context, their ambition to attain the expected living standard of urban life which started with the move to the cities a long time ago, has mostly failed. However, they expect their children to accomplish this process in the long term.

All in all, small firms and small employers comprise a significant part of the Turkish economy. Nevertheless, the small firms sector of the economy also includes those who are employed to eke out a living there, workers. Without analysing the role and the position of the workers in small firms, small scale economic activities cannot be



clearly understood. The next issue that will be dealt with more specifically is the status of workers in small firms .

# CHAPTER 5

## WORKING FOR SMALL FIRMS

### 5.1 Introduction

In this chapter, I will examine the social and economic conditions under which workers are employed in small firms at OSTIM. In developing economies, workers engaged in small scale economic activities make up the biggest slice of those who are employed in the informal sector. Although workers in the informal sector comprise an important part of the economically active population, a significant proportion of workers are not represented in official statistics. As Thomas states, most of the enterprises working in the informal sector are too small to be covered by regulations to report economic information or pay taxes. According to Thomas (1992: 333), although some studies have attempted to collect appropriate data through surveys of small enterprises, this is generally unsatisfactory, as it is likely to miss two important categories; those of no fixed business abode [such as street sellers] and those who work at home.

A wide range of economic activities in the informal sector are not fully covered by national surveys (Connolly 1985, Henry 1987, Portes *et al* 1989), such as casual work, seasonal work, (Bromley and Gerry 1979) hidden employment, disguised employment, under-employment, irregular employment, unregistered economy or unofficial economy. To get a full understanding of the forms of the informal sector's employment structure, one must take into account large numbers of those who are neither self-employed nor small employers but who make their living through various forms of small scale economic activities. It is therefore, important to examine the way in which workers have found themselves working in the informal sector.

Socio-economic transformation both in rural and urban areas has made it difficult for a vast number of people to make a proper living, and hence they end up in poorly paid, insecure and unstable economic activities. Davies (1978) claims that the urban informal sector is one of the examples of the failure of Third World countries' development policies to overcome widespread poverty and unequal distributions of income. As far as the Third World context is concerned, Gerry (1979) argues that the reason why informal economic activities are hidden from statistics might be attributed to the strategy of Third World countries to conceal their own massive poverty and the social inequalities that are prevalent in the informal sector.

Workers at OSTIM like most small employers, have entered the small firms sector of the economy because they have been unable to find adequate employment in the formal sector in general, and in the public sector in particular.

## **5.2 Poverty and Resilience**

The employment pattern in Turkey is characterised by a scarcity of high level technical-engineering and managerial skills. The abundance of unskilled workers gives rise to a massive clustering of an unskilled and formally unemployed labour force in informal economic activities. As explained in Chapter One, after migration many migrants were coerced into making a living in informal economic activities.

However, there is a difference between the socio-economic origins of small employers and workers. Unlike small employers, the workers are mostly urban born. Constant migration, especially since 1950, has changed the social composition of people who live in the urban areas. This means that the second generation of rural migrants makes up a significant part of the urban population. Workers covered in this survey generally represent the second generation of rural migrants. Thus 34 out of 55 workers have urban origins.

Having been in the city since they were born, these workers have still failed to gain access to either public sector employment or schooling. They said that the main



reason for this was their family's financial difficulties in sending them to carry on studying. Nevertheless, a small number of workers reported that they actually went to junior secondary school but could not carry on as they did not pass and thus, their father had no choice but to send them to the industrial estate.

Like the majority of small employers, almost all the workers live in the gecekondu district with their families. Workers pointed out that, as one income is clearly insufficient to support the whole family, more than one member of their family was generally required to work in other informal sector activities, such as peddling work, irregular seasonal work, domestic work or irregular construction work. Nevertheless, they say the families in the gecekondu areas are getting more determined to send their children to industrial estates since it is believed that, despite the low pay and hard work, the industrial estate provides relatively more stable, secure and reliable work compared to other informal sector activities. They also consider that through working at the estate it is possible for workers to acquire valuable technical skills on the shop floor whilst they become eligible to be journeymen by attending apprenticeship and technical training schools on the nearby estate.

At OSTIM, approximately 20,000 workers are employed by 3,000 small firms. As more than 60 per cent of small firms are engaged in metal manufacturing (Ostim Industrial Catalogue 1991), around 12,000 workers actually work in the general field of metal manufacturing. There are apprentice schools and training centres for workers to improve their skills and they get the necessary certificates to become an assistant journeyman and then a journeyman. As explained in Chapter One, workers are required to attend these school twice a week if they want to get a journeymanship certificate. Promotion is possible from an apprentice to an assistant journeyman and then to a journeyman if workers pass the examination. For each process, workers are required to attend these apprentice and/or assistant journeyman schools for three years so that they can qualify for the examination.

However, I often observed during the fieldwork that assistant journeymen, especially, do not always attend the school as required, since neither the schools nor the small employers press workers to do so. Small employers believe that it is a waste of time if they regularly allow their assistant journeymen to leave work since they need and/or prefer them to stay and work on their shop floor. Small employers also believe that technical skills and the qualifications that are given to the workers in these schools are not in line with what small employers mostly require from their workers. Nonetheless, an assistant journeyman begins to attend school more regularly, especially nearer exam time. All workers want to be journeymen but this is by no means an easy task. They argue that the problem is not only the time that it takes to become eligible to sit for the exam,[it takes at least 6 years from being an apprentice to a journeyman] but also that the examination is far more difficult than it should be.

Almost all the workers told me they had relatives at the estate before they came. At the very beginning, when workers come to the estate, their first stop is usually the work shops where their relatives are small employers and/or workers.

As one of the workers pointed out:

When I was 13 years old, my father took me to a workshop where his cousin was a journeyman. He asked him to teach me all sorts of difficult things as soon as possible. My father told his cousin 'Do not hesitate to give this boy a very hard time as his flesh is yours and his bones are mine' [eti senin kemigi benim]. In fact, this is always what happens to new comers to the estate right at the beginning. Since then I have worked in a few workshops but always at the estate. Because once you come down to the estate, there is no turning back.

Another stated that:

As soon as I finished primary school, my eldest brother sent me to one of his friends who was a small employer at the estate. Since then I have been working here and never had a chance to find a better job outside the estate. Once you come to the estate it is very difficult to change the

job. It seems to me that I will be stuck working in the estate for the rest of my life whether as a journeyman or a small employer.

A fifteen year old apprentice said:

Although I was quite a successful student in primary school, my father wanted me to work in a workshop at the estate. Even the primary school's head teacher visited my father to deter him from sending me to the estate. He said 'this boy is very successful at school so he should go to a junior high school. Please, give this boy a chance to carry on schooling.' My father said 'I wish I could send him to the junior high school and then to high school but I am afraid I cannot afford him to do that. He should be a bread-winner as soon as possible not only for himself but for our family too.' That is why I came to work here and was not able to go to the junior high school.

Workers maintained close relationships with their relatives. This might be attributed to the need to ensure their survival if they were sacked or became unemployed unexpectedly. As we shall see later, the relationship between relatives becomes even more important when setting up a business.

Despite workers' determination to set up their own business as soon as they could, they had a considerable desire to find work in the formal sector, particularly in the public sector. Almost all workers said that they kept looking for a job in the public sector whilst working at the estate. Workers claimed that they would not hesitate to work in the public sector with an income very much less than what they currently earned on the estate.

One of the workers said that:

I have never given up seeking a job in the public sector and I never will. Who knows, one day I could get it. I do not worry very much about how much I will earn in the public sector. If I get a public sector job, it will end my worry about my prospect since all I want is to secure my future, not anything else.

Workers prefer working in the public sector as its work arrangements are considered relatively secure compared to the private sector. This clearly indicates the



extent of the pressure on workers' experience in the informal sector. The majority of workers however, usually fail to get a job in the private sector let alone in the public sector. Consequently, a large proportion of the labour force, especially those with rural origins and less qualifications, have little opportunity to move from the informal sector occupations to formal ones. As far as the case of OSTIM is concerned, it is thus not wrong to suggest that movement of the labour force from the informal sector to the formal sector has been insignificant since, as explained in Chapter One, 86 per cent of small employers declared that they were themselves originally former workers in the estate and have not changed their occupation since apprenticeship. Accordingly, it is also very evident that transfer of workers from the formal sector to the informal sector is very limited since only five per cent of small employers indicated that they had formerly worked in the public sector.

It is important to point out that dealing with commerce and trade is regarded to be a good option among workers but they would not by any means be in a position to accumulate a vast amount of capital. As it is, they find it difficult to earn their livelihood, let alone make sufficient savings.

As one of the workers put it:

Even small employers find it impossible to set up in trade or commerce. How can we afford to do that? But we all know that the money is much more easily earned in those businesses. If I had enough capital to do business, I would certainly prefer to set up a business in commerce and trade.

Nevertheless, workers mentioned the possibility that some of the well qualified workers who impress the parent contractor company's managers and engineers, will be asked to work for their companies. This is especially the case "when managers and engineers of contractor companies visit their own subcontracted smaller firms to check out the subcontract work undertaken. Virtually, all workers are ready to accept these kinds of offers made by large contractor companies since the conditions of work, pay

and work arrangements are regarded as significantly more attractive compared to working for small firms. However, only a very small number of workers at the estate have been offered work in those contractor companies.

Since the majority of OSTIM's workers fail to find work in the public sector or the private sector, they have to spend at least 10 years working for small firms before they are able to set up their own business. All of them experience the hardship of working for small firms. However, working conditions differ according to whether workers are apprentices, assistant journeymen or journeymen. For example, an apprentice is supposed to carry out a wide range of tasks that are not necessarily related to the production process, such as making cups of tea, cleaning greasy machines, sweeping the shop floor, and cleaning the toilet.

During production, the apprentice is required to stand near a journeyman and/or a small employer to learn his skills. He is also supposed to fetch and carry the necessary tools for the journeyman and the small employer. Nevertheless, the apprentice is also given simple tasks at times in the production process. The relationship between apprentices and small employers and other workers is usually similar to that between older and younger brother. In this context, younger ones are expected to behave the way older ones require.

As an apprentice said:

I think that I do the world's most boring and hated work in here. I am asked to do everything whether I like it or not. Everybody orders me to do this or do that. Sometimes, I am fed up with this sort of behaviour especially from assistant journeymen and journeymen. If I refuse to do things they ask, I can get beatings. I have nowhere to complain. Even my father told them that they should never hesitate to teach the most difficult things to me and use beating if necessary. What can I do? When I become an assistant journeyman and a journeyman, I will never mistreat the workers below me the way I have been treated.



A thirteen years old said that:

I usually start doing most awful jobs in the morning such as cleaning the toilet, which is always disgusting and terribly smelly, and sweeping the floor. I am always supposed to make tea and coffee for them. I am also not supposed to react to any kind of mistreatment from them such as beatings and swearing. I am not an apprentice here, more a servant.

Assistant journeymen enjoy a more privileged position than apprentices but they have to follow all the instructions they receive both from journeymen and small employers. Unlike apprentices, they are given relatively sophisticated tasks to be carried out. They are also involved more in the decision making with respect to the production process. When apprentices become assistant journeymen they are more likely to move from one job to another if they continue to receive the same treatment. As they are assistant journeymen, they feel that they should not have to endure the same conditions as apprentices. They also believe that they can find another job more easily than an apprentice since they have basic skills. To them, they are not apprentices anymore and hence they should be treated more carefully by small employers and journeymen. From the assistant journeymen's point of view, they usually do more work than the journeymen since they are subject to instruction from both the small employers and journeymen. For example, when there are less sophisticated tasks to do, small employers and journeymen often ask assistant journeymen to do simple tasks along with apprentices.

As far as journeymen are concerned, they are the ones who have more privileges, higher wages and more autonomy than apprentices and assistant journeymen. They are also more involved in decision making not only in respect to the production process but in running the business too. Journeymen always enjoy having control and power since they are entitled to direct workers in accordance with the small employers' instruction. As explained in Chapter Four, journeymen are in charge of the shop and workers in the absence of small employers. This provides them with valuable experience of how to run



a business. As journeymen are keen to set up their own businesses as soon as possible, they endeavour to maintain good relations with small employers. Their bosses can provide financial support, equipment and tools when they are ready to set up their own business. Journeymen are also expected to mediate when a problem arises between workers and small employers.

When there is more than one journeyman in a particular small firm, it is usually the oldest, better skilled and most experienced journeyman (called 'master journeyman') who is considered to be the headman. Nevertheless, the relationship between the master journeyman and other journeymen is horizontal rather than vertical and both sides are aware of the other side's strength and indispensability within the firm. In fact, they are usually subject to the same decision making process and wage arrangements. Since all journeymen have more or less identical skills, they are equally expected to carry a wide range of sophisticated tasks in the production process including managing assistant journeymen and apprentices.

As one journeyman expressed it:

We are responsible for everything in here from A to Z. Not only does the boss expect us to work with great care, pace and perfection but he also wants us to instruct other workers in regard to the specific tasks to be done. I sometimes feel that it is us, rather than him who run the business. Considering what we do and how little we do earn, we would be better off if we set up our own business. We could at least get the income that we deserve if we worked on our own account.

Workers usually start working around 8-9 am in the morning. The first thing small employers do is to organise what to do throughout the day and accordingly, give workers specific tasks to complete in a specific time. Journeymen usually begin with using the lathe to do the most skilful work whilst assistant journeymen start with simpler tasks, usually in relation to journeymen's work. Apprentices, by contrast, start with cleaning the shop floor. After such tasks, apprentices observe journeymen closely to learn basic skills and provide necessary tools when necessary. Small employers often work along

with journeymen. At 10 am, workers and small employers have a fifteen minute break for tea and coffee before continuing work till 12 noon. Workers usually have an hour or hour and half break for lunch. Generally, small employers who employ 7-10 workers provide free lunch for the workers in a restaurant. The majority of workers [n=36] reported that they had lunch provided free by their boss. Others who do not receive this, go to nearby third class restaurants or mobile take-away stalls to have lunch. After lunch, workers start working as planned but small employers usually give up working after 2-3 pm to do office work. Workers have another 15 minutes break at 3.30 pm for tea and coffee. Work then continues until 6 or 7 pm, but this differs from shop to shop. Table 5.1 below indicates that smaller firms are more likely to work longer than larger ones of 7-10 workers.

**Table 5.1**

**Average Working Hours of Workers per week and the Size of Establishment.**

A= Establishment with 1-3 workers, n= 20

B= Establishment with 4-6 workers, n= 46

C= Establishment with 7-10 workers n= 34

	Less than 55 hours	Between 56-70 hours	More than 71 hours
A	10 %	60 %	30 %
B	15 %	76 %	9 %
C	32 %	68 %	0 %

According to Table 5.1, the majority of workers spend 56 to 70 hours a week at work. This corresponds roughly to 10 to 11 hours a day including Saturdays. One of the biggest problems that workers complained about was hours of work. In fact, it is common in all the small firms for workers only to take religious and public holidays and not to have an annual holiday. This indicates that a large proportion of small firms at OSTIM rely heavily on the intensive use of labour power in the production process. It also shows that smaller firms try to increase their profit margin by longer working hours. In fact, small firms are able to substantially reduce the cost of production by not paying



for over-time. The small firm in OSTIM has to open early in the day and work till late in the evening to ensure that it makes the maximum revenue from its operations. Even when small employers buy new machinery which enhances productivity, and output, they do not necessarily reduce working time since it is regarded to be an essential option to keep the cost of production down.

### **5.3 Traditional Forms of Solidarity and The Absence of Unionisation at OSTIM**

When compared to the formal sector, small firm employment at OSTIM provides unstable work arrangements, low wages, and bad working conditions. Workers are not in a strong position to demand better wages and working conditions since there is an absence of unions. In fact, as explained in Chapter Four, despite their positive attitudes towards unionisation, workers are not keen to unionise as they consider that they will set up their own business anyway. Workers believe that it is not worth trying to have a strong trade union which might possibly be a threat to their own businesses in the future. Workers also know that small employers constantly have severe financial problems. On the other hand, a few workers were of the false view that trade union activities are legally prohibited in firms with less than 10 workers.

On the issue of unionisation, workers were asked whether they would like to be a member of a trade union at OSTIM. On the other hand, approximately more than two thirds of workers, especially assistant journeymen in comparison to journeymen, were keen to join a union. On the other hand, the journeymen's lack of sympathy towards unionism demonstrates their priority to be concerned more with setting up their own business. Unlike journeymen, assistant journeymen are more 'concerned with unionisation since it is very unlikely for them to set up their own business' in a reasonably short time.



As one of the assistant journeymen who is biased towards a strong trade union put it:

If there was a union in here, things would be much better than they now are. I see no reason why we should oppose it. Nobody can protect us but a union. If we do not get together to fight for what we deserve, I do not believe small employers will care about what we demand.

A journeyman on the other hand, pointed out that:

A union might be hazardous for small employers but there has to be a way to improve conditions of work at the estate. Small employers make good money at times but we never benefit from it. They always consider themselves and do not care about the workers. I believe a union might help all of us to make an impact on small employers to improve the conditions here.

One assistant journeyman who has a moderate attitude towards unionism stated that:

A union should only cope with our problems. I do not want them to deal too much with politics. If a union is the one that cares about us, I am in favour of it. But if it aims to make politics rather than protect our interest, I am against it. Because, it is obvious to everyone, that OSTIM's small firms cannot afford a strong and radical trade union.

A journeyman, who is against radical unionism, asserted that:

Everybody knows that they [small employers] do not make a large amount of profit. Yes, I agree that they should have more concern for the workers but if they have nothing for themselves, how can we expect them to do more for us. What I mean is that we should not be very hostile to them but rather stay on their side so as to solve our problems. We should never forget that we will run our own businesses and then we will not want workers who are active unionists.

As can be seen from the above, workers generally agree that a trade union should be moderate, and deal with the problems of its members. This might partly be attributed to the fact that in the 1970s trade union militancy had ultimately led to the loss of a large

number of jobs of active unionists in the wake of the military coup in 1980. Workers are also aware of the fact that small employers are largely unable to provide what they deserve since the workers know from experience that small firms can only manage to achieve a certain degree of capital accumulation; usually, just enough for survival.

Small employers are, by way of contrast, very hostile to any kind of unionisation. Therefore, workers indicated that they did not want to be too actively involved in trade union activities. Small employers are very keen to employ only those who have less sympathy towards unionisation. Once small employers suspect workers are actively involved in trade union activities, they become determined to dismiss them. In this respect, workers who have more sympathy towards the union can easily loose their job. If anyone is known as an active unionist, this might cause them great difficulties in finding other work at the estate. One small employer said:

If a union was founded today, I swear, the number of small firms would easily be halved by the end of the year. Who will benefit from that? Of course nobody. Not only will we close down our businesses, but also workers will loose their jobs. I understand the demand that they make and realise the difficulties of workers at the estate. I was also a worker for more than 15 years before I started up my business and I believe the conditions were worse in old days.

Another small employer stressed that:

We cannot afford to have a union at the estate. All workers know that we have enormous difficulties to keep our businesses running. We simply cannot meet the demands of a union. To me, this is the best we can do for the workers. We are not in a position to provide better work conditions, it is as simple as that. If you can tell me that there is a small firm that can afford to recognise a union on this estate, I will close my shop and apply to work there.

However both sides realise the fact that neither small employers nor workers can put more pressure on the other side since neither side can afford to make more sacrifices. Although the absence of unionisation is an important reason for poor working



conditions, workers are always creating a kind of solidarity among themselves in order to cope with major problems. This following case is about the struggle of workers in an insecure environment, learning to withstand difficulties without any union support at all.

**a) Case one Fahri**

*This is my fourth job. In my former jobs, I had some problems with the bosses and therefore I left. The same problem sometimes happens here as well. The disputes between us and the boss can occur at any time for any reason. Sometimes things go well for a period of time, but sometimes things always go wrong.*

*Recently, our boss said that 'I want all of you to work on Sundays so we complete the subcontract work in time'. He added that he would pay extra for Sundays. We were five workers all together and two of us including myself were journeymen, along with two assistant journeymen and one apprentice. I said 'I do not want to work, because there is no reason to work on Sunday which is our day off. Why should I have to work?'. But others accepted to work just because of the fear of being sacked. In this case the reason why I did not want to work was to pay him back for his recent attitude towards me.*

*I knew how he desperately needed us to complete the subcontract work in time. As a journeyman, I was very well known at the estate as an expert in using various lathes and machinery precisely. He needed me a lot to do the subcontract work.*

*On the other hand, I knew that he did not usually help us when we were desperately in need of money. This was my turn to show this to him. When I need money, he is the only person I can ask, but he always finds an excuse to refuse me.*

*Last month, my mother was very ill and I had to take her to hospital. I really needed a certain amount of money. I went to ask for money from him, but he refused to give it to me. He said 'I am in serious financial difficulties, I am sorry that I cannot help you'. As far as I am concerned, he could find a friend or a relative to ask for money. At*



*least, he could make a phone call in front of me to show his concern about my problem, but he did not. He simply did not pay any attention to my problem and he ignored it. I got very angry but I did not express it in front of him.*

*He then asked me to explain the reason that why I was not going to work on Sundays. I said 'it is my official day off, it is up to me whether to work or not'. He said 'Help me to help you. If you continue to be like that how can I carry on running the business with workers who do not care about the situation of the company. If I close this shop, none of us will benefit I will lose my business, you will lose your job'.*

*He was getting angry when I still refused to work on Sunday. I began to completely ignore what he was saying to me there. He eventually realised that my refusal to work on Sunday was in response to his unwillingness to give me money when I needed it desperately.*

*He suddenly said 'I am the boss here and you must work, that is it. If you are not coming on Sundays, you are not coming on Monday' He was implying that he would sack me, if I was not going to work on Sundays.*

*I told him once again that he could not justify sacking me in any case, because I was legally entitled to have Sundays off according to law. He said 'I don't care what the legislation says, this is a matter staying in or out of business'. Like him, I have also got a kind of obstinate character. The other workers tried to mediate so that no one badly violated the relationship.*

*They failed to reconcile us. It all happened on Friday. He said bring all your uniforms tomorrow, I will pay the rest of your wages, and I don't want to see you here any more. This is my business and it is up to me to decide who to sack'. I angrily said 'it is not easy to sack someone when nothing is wrong, you daren't do that'. Then I turned to other workers and asked 'Have you heard that he could sack me or you whenever he wants, would you accept that?'.*

*After we did the shift on Friday, the boss left earlier than us and then I had a talk with the rest of the workers. I told them that we should at least occasionally come together to show our determination and strength and added that we can demonstrate to the boss how much we can successfully defend our rights against him if we want. I said 'If he can sack me today, he can easily sack you tomorrow too'. They said I was right, because the boss did not always help us when we needed help, so there was not enough reason to help him when he needed us, from our point of view.*

*We decided that if he insisted on sacking me, others would refuse to work. Next day, the boss told me not to work and said 'take your uniform off'. As soon as he said that, as we had decided before, others told him 'if you sack him, you will have to sack us as well, because without him we are not working either'. The boss got very angry with all of us. He threatened to call the police as if we were doing something illegal there.*

*The other journeyman who was the oldest of us, and also a right hand of the boss, had a private talk with him to explain how wrong he was to sack me when nothing was wrong. He told the boss that everything could be all right, if he accepted my intention not to work Sundays.*

*After we all calmed down, we apologised to each other. He told me that I did not have to work on Sunday. Nevertheless, I explained to him the basic reason why I did not want to work. I said "I was very disappointed with you when you did not financially help me when my mother was very ill at the hospital. That is why I did not want to work. To some extent it was a revenge for your attitude to me then. But now, don't worry, I can work a couple of Sundays" He said that he did not deliberately refuse to give money to me and tried to convince me that he really had a serious financial problem at that time.*

*Anyway, since then, I have been working on Sundays. I think, we will be able to complete the job in time. We are doing him a favour now, but I am still not very sure that he will do us a favour when we need it. This is the nature of the relationship between us around here, you really never know who will need who most and who will abuse whom.*



*But I like to see mutual and beneficial relations between workers and the bosses and I am afraid that things usually do not work like that. What can I do? If there was a union here, it would probably prevent these kind of problems from happening all the time. Unfortunately, we do not have one’.*

Not only OSTIM’s workers lack unionisation, but also a large part of the labour force in small firms throughout the country experience a lack of unionisation. As is clearly shown in Table 5.2, the rate of unionisation decreases dramatically in proportion with the size of establishment.

**Table 5.2**  
**The Rate of Unionisation in Various Size of Establishments in Turkey**

Establishments	The rate of unionisation (%)
1-9 workers	8 %
10-24 workers	22 %
25-49 workers	32 %
50-99 workers	47 %
100-249 workers	67 %
More than 250 workers	96 %

Source: Atilla Özsever (1993) Sabah Gazetesi, 10 Mayıs, sayfa: 9., derived from the Statistics of Ministry of Work (1992).

Although absence of unionisation at OSTIM considerably lessens workers’ leverage over small employers, the relationship between small employers and workers is not always based on mistrust. Small employers try to show the workers that they look after them responsibly if they are financially strong enough to do so. Most small employers, for example, provide free lunch in a nearby restaurant for the workers. They also try to support the workers when they get married. Even when a journeyman wants to set up his own business, small employers will provide him with a few implements so that he can equip his shop as much as possible. In some cases, some small employers,



who had recently set up their own business, declared that when they needed more work, their bosses had helped them by giving some part of their subcontract jobs. A small number of small employers even provide monthly bus tickets for workers so that they can use the buses without charge. It is important for the workers to have free transportation which forms a significant part of their expenses.

One assistant journeyman who was not provided with a monthly bus ticket by his boss, explained his transportation problem to me. He pointed out that the Greater Ankara Municipality only provided free bus services to the estate from the gecekondü districts at 7 a.m. Although he was supposed to start working at around 8.30 a.m., in order to benefit from the free bus, he therefore had to wake up early and arrive at the estate before 7.30 a.m. Consequently, he would always have to wait more than one hour for the shop to open. To be sure, very early one morning, I went to a gecekondü district where one of these bus services was available, and saw him and many others on the same queue.

As to the level of workers' wages, in the summer of 1992 and 1993, workers income was considerably less than the income of white collar workers. A journeyman only earns half of a policeman's wages whilst an assistant journeyman and an apprentice get one third and a quarter of a policeman's salary respectively. A journeyman's wages is around two thirds of a teacher's salary, whilst an assistant journeyman and an apprentice earn a half and one third of a teacher's salary respectively. In a similar vein, as far as the average income of an industrial worker who is unionised and employed in the public sector, is concerned, OSTİM's workers earn significantly less. A journeyman for example, only earns half of an industrial worker's wages, whilst an assistant journeyman and an apprentice can only get one third and one quarter of an industrial worker's wages respectively. OSTİM's workers are also subject to work under inferior working conditions whilst being paid less.

## **5.4 Health and Safety**

Health and safety standards amongst OSTIM's small firms bear little comparison with the requirements laid down by the authorities. The form of small firms' operation which is largely based on an intensive use of labour with inadequate equipment, is more likely to escalate the injury rate. Even in advanced countries, such as Britain, it is argued (Nichols 1989: 63) that the rate of industrial injuries is higher in small firms. Likewise, Goss (1991: 136-137) points out that small firms are less likely to recognise a trade union and thus more likely to deny employees the access to either a health or safety representative or the information so provided.

In fact, at OSTIM, only a tiny number of small firms appeared to reach the minimum requirement for health and safety. Workers complained about hard work that made them very tired and thus careless in using equipment and machinery on the shop floor. They also accused small employers of not properly locating various kinds of electrical equipment on the shop floor. Workers gave various examples of accidents that they had whilst working on the shop floor. They claimed that those accidents could easily be prevented if various equipment on the shop floors was cleared [such as metal scissors, welding equipments, electric iron saws, metal cutting hacksaws, etc.]. Even for a minor injury, the pharmacy box which is compulsory in each small firm, seemed seriously inadequate with insufficient drugs, medicine and tincture of iodine and the like.

During the winter, without any heat, workers are subject to work in rather cold weather, since the shop floor is wide open to the outside. Some workers showed their injured fingers, hands and even eyes [due to use of electric iron saws in particular which scatters iron dust around and seriously damages workers' sight and also makes it difficult to breathe]. They reported that they had more accidents in the cold weather when their fingers are almost frozen. Workers stated that most injuries were minor ones



and fatal injuries rarely occur. Nevertheless, workers were not happy about the attitude of small employers in alleviating the possibilities of injury at work.

As one of the workers who had a finger cut, said:

Injuries are more likely to occur when we are required to speed up working. Sometimes, the boss desperately wants the work to be completed in time due to pressure from the contractor company. Then, he pushes us to work harder. Under this kind of situation, we cannot be as careful in the use of lathes and equipment since we concentrate on finishing things as soon as possible. Even in some cases, we are asked to work faster for days and the boss neglects some safety measures like ignoring to check out electrical equipment or not giving us a sufficient break. I think, if the pressure on us to increase the pace of work was a little bit less, many accidents that happened here could have been prevented.

When injuries occur at work, workers are usually taken to the hospital if necessary. But the authorities in most cases [except fatal and very serious injuries] are not informed. Workers who had various degrees of injury such as cut fingers or badly burnt hands, stated that neither they nor their bosses had informed the authorities. It is partly because neither side wants any trouble. For example, if a worker informs the authorities without telling his boss, he could lose his job. On the other hand, small employers have no desire to let the authorities know what kind of accidents happen in their shop. If the authorities are informed, small employers might be required to spend money to improve health and safety on the shop floor or otherwise face the possible closure of their shop. Small employers always fear legal action when accidents occur in case they are found to be disobeying health and safety standards. In most cases, they usually are.

Occasionally, authorities from the Greater Ankara Municipality visit small firms to make sure that health and safety standards are in line with regulations. They usually check electrical equipment [whether it is safe enough to use], cleanliness of the shop floor, especially toilets and showers (whether they are in use or not) and first aid boxes [whether they include necessary medicine]. However, they are not very strict in checking



health and safety standards and rarely impose excessive liabilities on small employers. I encountered an official from Health and Safety Department of Greater Ankara Municipality, who was paying visits to small firms to examine health and safety standards. He acknowledged this practice:

We actually know that they are not capable of making extra spending for health and safety. We do not push small employers very hard on health and safety issues. Otherwise, it is obvious that some of them will go out of business which is not only bad for those who work there but also for our economy. Nevertheless, we want to make sure that small employers do not further reduce health and safety standards on the shop floor.

In fact, not only are workers subject to work without proper safety and health standards, but their employers are equally subject to the same conditions in the production process. Since the authorities cannot make small firms more attentive to health and safety, workers concede that small employers are financially unable to improve safety. OSTIM's workers [as well as their employers] are therefore trapped into working under poor health and safety conditions along with low pay and unstable work arrangements.

Consequently, workers find it very difficult to carry on enduring the conditions under which they perform their work, and thus setting up their own business becomes the only option to escape from the poverty of working for small firms.

## **5.5 Expectations and Prospects of Starting-up a Business**

Almost all workers expressed their desire to set up their own business if they failed to get a job in the public sector. Otherwise, they said, they would not wish to carry on working at the estate as a worker. For workers, it was too difficult to make a living. To workers, working on their own account could easily bring forth higher income and thus an improvement of their living conditions.

As one journeyman put it:

Who can carry on working at the estate with this little income for so many years to come? I swear that this work completely destroys the strength and energy of a human body by the age of 40-45. After that, you are finished and that is it. Then, you just cannot work as hard as your boss asks. That is why, setting up a business is not only a matter of enjoyment, to work on your own; but it also a protection of your body from becoming completely useless in a very short time.

OSTIM's workers on the other hand, are aware of the fact that a small employer can undoubtedly earn more money than they can. Although workers realise the stress and the pressure that small employers take in coping with day to day business difficulties, they regard the position of small employers as more advantageous than their own. Workers believe that small employers do not have to work as hard as workers. According to workers, small employers are in a position to come to the shop later than workers and have a break whenever they wish. Moreover, workers claim that if small employers want to go on holiday, they can, even if only for a short break. Considering the enjoyment of working by yourself and becoming your own boss in your business, workers believe that the only option left for themselves is to set up their own business as soon as they become journeymen.

However, becoming a small employer is not an easy task, since virtually all workers have insufficient capital to set up a business. The lack of income prevents them from making the necessary savings. In addition, the majority of workers declared that they did not have any other income and financial resources that would generate a sufficient amount of capital for setting up a business. In a group discussion, workers were asked to express their ideas on how they could be determined to set up a business given their lack of financial resources. For example, the cost of one of the most needed lathe used for bending and drilling metal sheets, is equivalent to a 3 years of a journeyman's income. The second-hand cost of the same lathe exceeds 2 years of a journeyman's income. Although it is generally assumed that the small firms sector of the economy is characterised by easy entry, it is becoming increasingly difficult for



OSTIM's workers to gain entry. Nevertheless, workers are still determined to set up their own business.

One of the workers added:

You have got to believe in something. I mean, you have to have confidence to convince yourself that things will be better. Otherwise, there is no point to live on by relying on this income. I believe nobody here is very sure about how to find the money to set up a business but I can assure you that more than half of us here will succeed and set up a business.

Another worker also stated that:

I am sure that I will set up my own business, whatever the cost. I do not have to have a certain amount of capital to do that. For instance, my father could support me. In addition, I can sell my wife's jewellery and borrow a certain amount of money from my friends, relatives and even from my boss. I can also buy some second hand equipment and machines. I am not saying that it is that easy to achieve this, but surely it is not impossible.

Yet another worker opposed this:

I agree that it is not impossible but it is getting very difficult indeed. For example, today, a workshop needs more modern machinery. That means we will have to have more capital to purchase this modern equipment. A workshop cannot survive by using old-fashioned machinery. The other thing is the abundance of small firms, which keep the subcontract work down at all times. Everybody knows that, today, a workshop cannot consolidate its financial situation as easily as 10 years ago. To me, it is indeed getting more hazardous to take these kinds of risks to set up a business.

What is clear from the discussion above is the great importance of workers' own savings and of informal credit mechanisms such as loans from family and friends in setting up a business. It is also important to point out that bank credit does not play a significant role when setting up a new business at OSTIM. This is very much in line with small employers' own experience as explained in Chapter One. None of the small



employers reported that they had taken loans from banks when they set up their own business. Like small employers, workers also rely on private savings and loans from family, relatives and friends to generate capital.

Although the majority of workers believe that they will set up their own business, there are, nonetheless, those who emphasise the increasing difficulties. In fact, I often observed that at OSTIM, there were workers in their late thirties and forties who had failed to set up businesses. As far as those who were interviewed and observed are concerned, the age of workers varies from 13 to 50. Apprentices, for example, are usually between 13 and 16 years of age; whilst assistant journeymen are usually between the ages 16 and 20. Journeymen on the other hand, are usually between 18 and 50. The majority of journeymen are between 24 and 35. This indicates that setting up a business is more unlikely until ages 24-25. However, OSTIM's workers begin to consider setting up a business more seriously at 24 years of age and onwards. This can also partly be attributed to the fact that most workers get married around 18 to 25, which might possibly put an extra pressure on them to do something to look after their family. Workers' wages are plainly not enough to make a proper living for themselves, let alone for their families.

In addition, workers who do not have a sufficient amount of capital but who want to set up their own businesses, use various strategies. One such strategy is where more than one journeyman come together to pool their resources to set up a joint business, since the savings of one person is not sufficient enough to set up a new business. Although the business is officially registered in the name of one small employer, everybody is equally responsible for running it. One of the advantages of setting up a joint business is that they will pay a single tax, rent, electricity bill, etc. The business activities are in some cases divided into numbers of people who are involved in setting it up. It means that whilst one of them does metal working the other is engaged in processing auto spare parts, whilst the other one concentrates on auto repairing. However, each one is responsible for his own activity.

Nevertheless, since machinery, equipment and tools are scarce, they usually utilise the other's implements when necessary. If one of those self-employed [they are not 'small employers' as they do not employ anybody until they strengthen their business activities] consolidates his financial position, he can leave and separately set up his new business elsewhere on the estate. Nevertheless, it is important to point out that it is very risky to set up a business like that since there is strict control from the authorities, it being illegal to run business on separate bases without paying extra tax. Thus, despite a small number of journeymen's success with this route, the majority of journeymen fail to get into business through such unofficial processes.

Workers who were in their late thirties and forties, were asked why they could not set up their own businesses. They said the lack of capital prevented them. They also pointed out that they did not dare to borrow large amounts of money from relatives, as this could do more harm than good if the business failed to make enough money. A common refrain was that they would certainly set up their own business if the state banks [such as Halk Bankası] provided cheap loans. However, none of them stated that they actually went to a bank to inquire about the interest rate of loans. Along with their low wages, the lack of financial resources has greatly discouraged them to risk setting up a business.

There are workers who are as skilled as journeymen, but who have not got a journeymanship certificate. For them, it is virtually impossible to set up businesses since they are not legally eligible to do so. Some of them did not bother about apprentice schools and the various training courses for assistant journeymanship as they looked for another job, particularly in the public sector. Their failures to find a refuge in the public sector often seemed to make them very depressed. There is however, a strategy to overcome the problem of those who are unqualified. In addition to my survey of 100 small employers, I deliberately found and talked to five small employers who did not have journeymanship certificates. They had made an agreement with a worker who had a journeymanship certificate but could not open a business due to financial problems. For



example, in an agreement which is informally set, the journeyman legally sets up the business in the name of a small employer who does not have certificate. Although, this journeyman officially seems to be responsible for running a business, in practice, he is merely a worker. In this case, these journeymen earn relatively more than an ordinary journeyman elsewhere on the estate. However, when the owner of the business comes to a conclusion that the journeyman is biased towards violating the agreement and to unfairly favour himself, the owner sacks and replaces him with another journeyman since it is relatively easy to find journeymen who cannot set up businesses but are ready to accept a higher income under these kinds of conditions.

As is clear, a large number of OSTIM's workers who have journeymanship certificates, are determined to set up their own business in the future despite their lack of financial resources to do so. Interestingly, there are also those who are unlikely to find a sufficient amount of money, who said that they would set up their business at any expense. This is testimony to both the depression and the resilience of OSTIM's workers to make a proper living in the urban context.

## **5.6 Conclusion**

The extent to which informal economic activities are important in providing employment opportunities can be gauged in terms of the numbers of people who otherwise would have been unemployed but find a job in this sector. Workers of small firms along with small employers play an important role in the development of the small firms sector of the economy. Considering small firms' provision of various forms of technical skills, one can easily recognise the importance of the small firms sector for those who have a low level of technical qualification and who are unable to find a job in the formal sector.

Unlike small employers, the majority of OSTIM's workers have urban origins [n=34 out of 55]. They work at the estate because they could not carry on with their education after primary school due to either their family's financial difficulties in

sending them to school or their failure. They chose to work at the estate because they and their fathers thought that it was the only occupation outside the formal sector in providing relatively stable work opportunities. Thus, unlike the case of small employers, there is no significant differences between workers with urban origins and rural origins in respect to the level of education and skill. Among small employers, there are those who are well educated and who have never worked at the estate until setting up a business.

Despite many difficulties such as low wages, inferior working conditions and long working hours, workers successfully move from apprenticeship to journeymanship. Workers' bias towards strong unionisation is found to a lesser degree. Journeymen particularly have a less positive attitude towards unionisation in comparison to assistant journeymen since they believe that they will set up their own business anyway. Although workers generally accept that a union is necessary for workers, they want a union which deals with the problems of its members. Workers were also of the view that being an active unionist might easily threaten their likelihood of finding a job at the estate, since small employers prefer employing those who have less sympathy towards unionisation.

At OSTIM, small firms' provision of working conditions are not in line with health and safety regulations since small employers are not in a position to make more sacrifice to improve conditions of work due to a lack of financial resources. Thus, workers at OSTIM are not only subject to unstable work arrangements, low wages and long working hours, but also small firms' poor health and safety on the shop floor.

Having accepted the lack of financial resources, workers at OSTIM are very determined to set up their own business. One way or another, they believe that they will find a certain amount of money whether from their private savings or personal borrowings from relatives and friends and then they will eventually succeed in starting up their own business. However, to start up a new business is getting more difficult and the number of workers who fail to set up a business is increasing.



To sum up, working at the estate promises an upward social mobility for those who lack educational qualifications and fail to find a job in the formal sector. Thus, small firms play a very important role not only for the economy in terms of value added, input and output, but also in providing employment opportunities for those who make their living outside the formal sector. In this respect, it is very evident that small firms seem to offer better prospects and life chances for those who otherwise could not possibly escape the relative poverty of most of the activities of the informal sector.

## **CONCLUSION**

This study has discussed the role of OSTIM's small firms in respect to market relations and analysed how certain socio-economic factors shape the world of small employers and workers at OSTIM industrial estate. To start with, I examined the factors that pushed individuals into informal economic activities, in general, and industrial estates, in particular. In this context, it is evident that a lack of income earning opportunities in the rural areas, along with fragmentation of land from one generation to another and a high birth rate, made a considerable impact on individuals in deciding to migrate to cities. Then, urban migrants found it very difficult to have access to occupations in the formal sector as they lacked educational and technical qualifications to the requirements for urban based occupations such as state civil servants.

Once urban migrants realised that access to the formal sector was very limited, the only option for them was to make a living through informal economic activities which were considered to provide low income, unstable work arrangements, poor working conditions, etc. It is found that small employers and workers regarded working at estates as one of the best options from which they could earn a living in the urban context, since the condition of work and income earning are relatively stable compared to for example peddling work and seasonal work in construction. Working at estates also promises the acquisition of certain technical skill with a journeymanship certificate to set up their own business in the long term. OSTIM's small employers inhabit a stratified social and economic structure. An indicator of an employer's position in this structure is given by the number of workers which they employ, for size of establishment tends to correspond to both the social differences between them and to the difficulty of the problems they are likely to experience. It is the better educated and urban born small employers who are more likely to run the larger establishments at the estate.



The second part of the thesis has dealt with the position of small firms in a chain of market relations in regard to access to subcontract work, raw materials and credit. It was shown that small firms found it very difficult to control the business environment in which their firms are engaged. In fact, it was evident that OSTIM's small firms were subject to certain market relations controlled by larger capital outside the estate such as contractor firms, raw material dealers, etc. It is most unlikely that the majority of small firms at OSTIM can break the barrier of market relations for further growth to become a medium size firm as the lack of capital accumulation and working capital minimise small firms' capacity to grow.

It is not only the external factors that prevent the majority of small firms from expanding further but also internal factors such as small employers' lack of knowledge of design, poor management and rudimentary technology. Cash flow, the subcontracting system and raw material prices are problems that are experienced by all small employers. But OSTIM's small employers are not affected to the same degree. It is the urban born and predominantly better educated employers who have a relatively easier access to subcontract work and raw materials. The intensity of competition, on the other hand, remains high at all times since the number of small firms proliferates in a limited market. Closer examination of the contractual chain which links OSTIM to the medium and larger capitals outside the estate reveals clear differences inside the estate between large and small employers. It is evident that the small employers who employ less than 7 workers, are much less likely to get contracts from second dealers than the largest ones are.

The third part of the thesis has examined the relevance of the theory of flexible specialisation in developing countries in general and at OSTIM in particular. It was shown that OSTIM's small firms do not fit into the category specified by the theory of flexible specialisation in terms of collective efficiency, inter-firm division of labour, innovation and skill formation. OSTIM's small firms do not use sophisticated technology in the production process; they even find it difficult to make fixed expenses such as rent, electricity and telephone bills, wages, etc. let alone to invest in high technology to enable

them to be flexible. OSTIM's small firms do not co-operate to enhance networking for collective efficiency, although they have sectoral and geographical proximity which are asserted to be the *sine qua non* for small firms' flexibility. It was argued that sectoral and geographical proximity were not sufficient for small firms' flexibility as the theory largely neglects the impact of market relations on small firms such as competition, which greatly undermines a strong inter-firm division of labour to collectively attain the flexibility.

Although Flexible Specialisation theory mainly centred on advanced capitalist economies, later Sabel and particularly Schmitz, developed its relevance for developing economies. In this respect, it was argued by Schmitz that private and public institutions were essential to promote the flexibility among small firms in providing a wide range of services. Unfortunately, Schmitz does not give sufficient evidence how sectoral and geographical clustering of small firms and the provision of various services by public and private institutions can lead small firms to flexibility. It is however not clear from Schmitz' argument why clustering of small firms is inclined towards co-operation and networking rather than competition. At OSTIM, for example, it is larger capital outside the estate which mostly benefits from the clustering of small firms at the estate. In fact, this is the source of the intensity of competition that OSTIM's small employers complained about. In an estate where the number of small firms is greater than the amount of subcontract work supplied, it is unlikely that co-operation and collaboration among those firms can emerge.

On the other hand, public and private institutions were not efficient enough in supporting small firms as they were provided with insufficient financial resources by the state. In addition, as those institutions were largely dependent on decision making from above, they were unable to carry out the tasks as planned. For example, In the total credit, small firms's share was less than Five per cent between 1985 and 1989.

Small firms' occupational associations and institutions were not strong enough in alleviating small firms' problems as large firms' associations most successfully influence



the state's decision making. Small employers, did not expect small firms' associations and organisations to overcome small firms' common problems as they regarded them a toy for large firms. Like public institutions, private ones also have not been well equipped to assist small firms in solving common problems, due to rigid sets of regulations, excessive bureaucratic formalities, limited financial resources, etc.

The fourth part of this study has explored the small firms sector of the economy. It was shown that small firms occupy a significant part of the Turkish economy in terms of input, output, value-added, number of firms, number of persons employed, etc. As to the growth potential of small firms at OSTIM, given the lack of capital accumulation and insufficient working capital, small firms did not have the potential for further growth although they largely succeeded in a limited expansion since setting up. Nevertheless, small employers with urban origins and better education were more willing and able to expand in comparison to those with rural origins and lack of education.

As to entrepreneurship, OSTIM's small employers were not found to be entrepreneurs as specified in literature such as high achievement motivation, pursuit of profit, risk taking, individual success, etc. Small employers found their firms involved in a chain of market relation that made them unable to be enterprising. Entrepreneurship is assumed to be an outcome of choice but OSTIM's small employers were mainly pushed into occupations to make a living and had very little room for manoeuvre and little opportunity to be enterprising.

OSTIM's small firms have a limited division of labour in the production process. Nevertheless, division of labour is greater among small firms with 7-10 workers since small employers need to spend a certain amount of time, especially afternoons, to do business related matters in the office. Technical division of labour is also greater among small firms with 7-10 workers since the use of relatively modern technology, the amount of work undertaken and tasks to be completed are larger in comparison to small firms with less than 7 workers.

As far as employment relations are concerned, both paternalistic and fraternalistic features exist simultaneously. In this regard, small employers tend to create fraternalistic relations with journeyman whose skills are essential to the firm whilst they tend to use paternalistic relations towards younger workers whose skills can easily be replaced.

Small employers regarded themselves somewhere between peasants and those in white collar occupations. They did not feel part of either an urban or rural socio-economic group. Whilst the rural born small employers found themselves closer to the peasants, the urban born small employers consider themselves closer to the urban middle income groups. Nevertheless, most small employers expect their children to carry on in the same business with a certificate either from a college or university. Ideologically, OSTIM's small employers do not fit simply into the category of anti-collectivism or individualism. The majority of small employers at OSTIM, accept that it is essential for them to come together to resist the difficulties resulting from market relations such as lending money, giving subcontract work to those who have not had sufficient subcontract work for a long time, providing equipment to each other if needed, etc. Social and economic closure, which identifies itself through Islamic ideology, is an attempt to protect themselves and ease their survival struggle in the urban context. Such practices are features of limited, personalised and often familial network. They do not add up to make a longer collective whole.

The final chapter of the thesis explored the most neglected phenomenon of studies on small firms, that is workers. It examined factors that played important roles in their decision making to work at the estate. Unlike small employers, OSTIM's workers mostly have urban origins due to continuous migration to cities which has greatly changed the social composition of those who make a living in the urban context. Nevertheless, like the majority of small employers, they also lack the level of education. They work at the estate since they could not carry on education after primary school due to their family's financial difficulties or their unsuccessful experience at school. Despite many difficulties such as low wages, poor working conditions, long working hours, unstable work



arrangements, etc. workers are determined to complete the process from apprenticeship to journeymanhood. Workers' attitudes towards unionisation are complicated by their hope to set up their own business and by their knowledge that small employers prefer not to employ unionists.

At OSTIM, working conditions are not in line with health and safety regulations since small employers are not in a financial position to pay more attention to the improvement of health and safety at work. Not only workers but also their employers are equally subject to the same poor health and safety at work, as the employers themselves usually spend two thirds of their working time on the shop floor along with workers. Workers were of the view that as it is very difficult to endure the conditions under which they perform their work, setting up a business becoming the only option to escape from the poverty of working for small firms.

Further research is needed into how far the small firms described in this thesis are typical of different sectors and regions in Turkey; into what social and economic conditions are favourable to small firms' growth; and into the effects of macro economic policies on the growth of small firms. In particular, it is to be hoped that further research will examine how regional and local institutions [public and private] can remedy the common problems of small firms in Turkey. For it is such institutional structures that mediate between macro economic policies on the one hand and the micro world of the small employer on the other.

In the mean time, OSTIM's workers are determined to set up their own business. One way or another, workers believe that they will find a certain amount of money whether from private savings or relatives. However, to start up a new business is getting more difficult thus the number of workers who fail to set up a business, is increasing. To workers, working for small firms at estates offers comparatively better prospects and life chances, a chance to escape from the poverty of the most informal sector activities.

# APPENDIX

## Research Methodology

In order to conduct field-work, an industrial estate, OSTIM in Ankara was chosen for three reasons. First, it was the biggest industrial estate in Turkey at the time the field-work was undertaken (OSTIM Industrial Catalogue 1991). Secondly, for the purpose of this study, I wanted to choose an industrial estate in metal manufacturing, where the majority of small firms are engaged in production rather than services. In fact, the great majority of OSTIM's small firms [over 60 per cent] operate in the general field of metal manufacturing and produce commodities (OSTIM Industrial Catalogue 1991). Lastly, it was relatively easier for me to have access to the area where I knew friends who were already workers or small employers [they were not chosen as participants]. As a result, I successfully entered the area and became a familiar face in a very short time as they introduced their friends and I found friends of friends through whom I was more easily involved in face-to-face relation with small employers and workers. Interviews with workers usually took place outside the small firm or on the shop floor in the absence of small employers. During the field-work, I often met workers in the lunch-time break or after work.

A pilot study was carried out on 12 small firms at OSTIM in 1991 to develop a sample design and a research methodology. I was able to clarify some of my original thoughts, opinions, expectations and ideas during the pilot study. Having discovered how small firms were distributed and located, I designed and administered an interviews schedule. Comprehensive field-work was conducted on 100 small firms owners and 55 workers between August and October in 1992 by using the technique of 'random sampling' from among all the streets [two small firms were chosen from each of 50



streets according to the block numbers (odd) of the small firms]. I spent approximately 3 hours for each interview with small employers but some of them lasted 5-6 hours.

During the field-work, I was able to interview 55 workers. These included 21 journeymen, 18 assistant journeymen and 16 apprentices respectively. I mostly benefited from conversations and discussion along with comprehensive observation and did not use questionnaires or a tape recorder since workers had strong qualms about these research techniques. They did not want to be recognised as those who gave information about the condition of work which in turn might cause their dismissal from work if their bosses were informed. Interviews with workers lasted more than two hours but on average approximately one hour was spent with each worker. Sometimes, I made use of group discussion among workers so as to create more informal debates on various issues. I kept a diary to make day-to-day observations.

In addition to the field-work, various kinds of statistical data, official bulletins, survey results and official accounts were collected to add statistical and economic accounts to the analysis. Therefore, both the qualitative and quantitative accounts are used to analyse the small firm in a wider social-economic context.

First person accounts such as cases, profiles and quotations are widely used so as to explicitly comprehend the world of small firms selected in this study. Nevertheless, it should be pointed out that I significantly benefited from observations, conversations and discussions with participants during the field-work. Group discussions which usually took place at cafes and pubs, where people usually met after work, produced valuable insights into the world of small employers. My final visit to the area for two weeks in September 1993, gave me a chance to see the progress that the initially selected 12 pilot firms had made in the last two years.

All tables in the text have been subject to chi square tests and are significant at the five per cent level. Establishments of 1-10 workers were chosen but in specific analyses three categories are used: small firms with 7-10 workers, small firms with 4-6 workers

and small firms with 1-3 workers. It will be seen that there is a significant relationship between these different sizes of small firms and various issues such as small firms' access to credit, raw materials, subcontract work, etc. These differences are in turn associated with the level of education and origins of small employers. For example, small firms with 7-10 workers are more likely to be run by those with urban origins and better educational qualifications whilst small firms of 1-3 workers are mainly run by those with rural origins who lack educational qualifications. It is also the case that larger small firms generally utilise more machine power [HP] than smaller firms.



# QUESTIONNAIRE

**NUMBER OF INTERVIEW**

**DATE:**

**LINE OF PRODUCTION:**

**LOCATION:**

**RENT OR OWNED:**

**PHONE NUMBER:**

## PART ONE

I will appreciate, if you will provide the following information, none of which will affect the anonymity of the survey.

1. What is your age? (    )

2. Please, indicate the level of former education you have got?

-None

-Literate, (able to write and read)

-Primary school

-Junior secondary school

-Secondary school

-High school (two years)

-University

3. Where were you born?

-Region (.....)

-City (.....)

-Town (.....)

-Village

4. When did you migrate to Ankara? (to those who were born in rural areas) (.....)

5. Please, indicate the level of education your father has got?

-None

-Literate, able to write and read)

-Primary school

-Junior secondary school

-Secondary school

-High school (two years)

-University

6. What was your previous job(s)?

7. How long have you been doing this business? (.....)

8. How many workers you employ?

9. Why did you chose this occupation?

10. How did you get the capital to set up your business?

11. What was your expectations before setting up?

12. Has your business satisfied your initial expectations? In what way?

13. Did you get any training, before/whilst setting up your business? For how long?

14. Would you prefer the same occupations if you had to set up your business now?  
Why?

15. Have you ever expanded your business in the last 3-5 years? If no what was the reason(s)?

16. What do you think are the most important problems for your business today? Please, indicate only 2 to 3 problems given below.



- Lack of working capital
- Lack of demand
- Marketing
- Excessive competition
- Government taxation policy
- Access to raw materials
- Access to credit
- Difficulties to get and pay off payments
- Others (specify)

17. What would you like your children to do? Why?

18. How many person(s) are actually working for an income in your family? (if some) please specify what they do?

19. If you had more of money, where would you spend it?

- To expand business
- To open a bank account
- To set up a different business
- To buy a house, a car, etc.
- To buy a land and live in the rural area
- Others (please specify)

20. Do you want to expand your business in the next 3 to 5 years? If yes, in what way(s)? or if no what are the reason(s)?

21. What do you think are the foremost important worry and strain in the lives of most small employers?

22. Which groups as given below, do you think have most suffered and exploited in the last 10 years?

- Peasants

- Industrial workers
- White collar state employees
- Small employers

23. Which groups as given below have been better off in the last 10 years?

- Peasants
- Industrial workers
- White collar state employees
- Small employers

24. How important is an increase in the number of large companies in the economy?

- Very important
- Moderately so
- Not important
- Don't know

25. How are the approaches of large companies towards small firms in general and your firm in particular?

- Benign/constructive
- Exploitative/aggressive
- Don't know

26. How important are small firms' occupational and organisational associations for your firm?

- Very important
- Moderately so
- Not important
- Don't know

27. How many times have you got credit from banks in the last 3-5 years?

28. What are the main difficulties in getting credit?



29. What are the main difficulties to access to raw materials?
30. In which dealer(s) do you usually get raw materials?
- First dealers
  - Second dealers
  - Third dealers
  - Fourth or more dealers
31. What is your firm capacity utility in the last 6 months? What are the reason(s) in not working to full capacity?
32. What is the principle of stock you usually do? Why?
- Just-in-time
  - Just-in-case
33. What do you think about the future of your business? Why?
- Good
  - So-so
  - Bad
34. How many hours a (day and week) do you work?
35. How much horse power (HP) your business utilise?
36. What do you think about the reasons that so many people work in small scale businesses? Why
37. To whom is your business usually subcontracted? please explain?
38. In which dealer(s) do you usually get (sub)contract works?
- First dealers
  - Second dealers
  - Third dealers
  - Fourth or more dealers

**39. What kind of subcontracting you do on price setting? why please specify?**

- Bargain with subcontractors**
- Accept subcontractor's price**
- Price at cost plus**
- Price takers**
- Others**

**40. Do you want to carry on the basis of subcontracting? Why?**

**41. How do you meet the constantly changing market demands?**

**42. What is the percentage of customised goods in your total products?**

**43. Who usually makes unfair competition against you?**

**44. Who is you main competitors?**

**45. What kind of unfair competitions do you usually face?**

- Price discount by competitors**
- Competitors reduce the quality**
- The dumping of products**
- Others (Please specify?)**

**46. Do you have any other income apart from the income from your business?**

## **PART TWO**

**(Questions about the state)**

**1. To which objectives should the government give its most immediate attention to solve the foremost problem for small firms? Please explain why?**

**2. Do you think that state policy has been successful enough in providing a wide range of facilities to small firms? Please specify?**

**3. Do you think that state taxation policy has been fair enough towards small firms?**



4. What proportion of state officials are capable of putting national interest ahead of their own interest and family loyalties?

- Almost all
- Most, but by no means all
- Relatively few
- No response

5. What kind of incentives the state should firstly provide for small firms?

### **PART THREE**

(Following questions were asked to workers during the interviews but no tape-recorder and questionnaire used)

- The age of workers,
- Where they were born,
- The level of education,
- Where they are from,
- How they got this occupation,
- How long they have been working at the estate
- Father's occupation,
- The level of father's education,
- The real wages they earn,
- Their expectation of work,
- Any plan to set up business,
- The source of capital they expect to get at the time of setting up their own business,
- Trends towards trade unionism,
- Relationship with small employers,
- Relationship between workers,
- Any expectations to change the current occupations,

- How many hours a day and a week they work,
- Conditions of work,
- Health and safety,
- What they think about the future of small firms,
- What they think about the state policy,
- Which part of Ankara they live,
- How many members of family are involved in making a living for the whole family,
- Whether they have any other income,



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